

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

This management's discussion and analysis ("MD&A") of the operating results and financial position of Alamos Gold Inc. and its subsidiaries ("the Company") is for the three-month period ended March 31, 2008 compared with the three-month period ended March 31, 2007. Together with the interim consolidated financial statements and related notes, the MD&A provides a detailed account and analysis of the Company's financial and operating performance for the year. The Company's functional and reporting currency is the United States dollar. This MD&A is current to May 6, 2008 and should be read in conjunction with the Company's Annual Information Form and other corporate filings available at [www.sedar.com](http://www.sedar.com) ("SEDAR"). Management is responsible for the interim consolidated financial statements referred to in this MD&A, and provides officers disclosure certifications filed with securities commissions on SEDAR. The audit committee reviews the interim consolidated financial statements and MD&A, and recommends approval to the Company's Board of Directors.

The MD&A should be read in conjunction with the interim consolidated financial statements of the Company and related notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Refer to Note 2 of the December 31, 2007 and 2006 audited consolidated financial statements for disclosure of the Company's significant accounting policies. Refer to Note 3 of the March 31, 2008 interim consolidated financial statements for a discussion of changes in accounting policies and presentation.

### **Note to U.S. Investors**

All references to mineral reserves and resources contained in this MD&A are determined in accordance with National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101") of the Canadian Securities Administrators ("CSA") and Canadian Institute of Mining, Metallurgy and Petroleum ("CIM") standards. While the terms "mineral resource," "measured mineral resource," "indicated mineral resource," and "inferred mineral resource" are recognized and required by Canadian regulations, they are not defined terms under the Securities and Exchange Commission ("SEC") standards in the United States ("U.S."). As such, information contained in this MD&A concerning descriptions of mineralization and resources under Canadian standards may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements of the SEC. "Indicated mineral resource" and "inferred mineral resource" have a great amount of uncertainty as to their existence and economic and legal feasibility. It cannot be assumed that all or any part of an "indicated mineral resource" or "inferred mineral resource" will ever be upgraded to a higher category of resource. Investors are cautioned not to assume that all or any part of the mineral deposits in these categories will ever be converted into proven and probable reserves.

### **Overview**

Alamos Gold Inc. is a publicly traded company on the Toronto Stock Exchange (TSX: AGI). The Company owns 100% of the 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 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, 2007 were 24.3 million tonnes grading 1.68 grams per tonne of gold ("g/t Au") or approximately 1.3 million contained ounces of gold.

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.

### **First Quarter 2008 Highlights**

During the three-month period ended March 31, 2008, the Company reported record quarterly earnings, gold sales and production, revenues and cash flows from operations. Specifically, the Company:

- Recognized record quarterly earnings of \$5.7 million (\$0.06 per share), an increase of 380% over earnings of \$1.2 million (\$0.01 per share) in the first quarter of 2007.
- Increased gold sales revenues 83% from \$17 million in the first quarter of 2007 to \$31 million in the first quarter of 2008.
- Reported record quarterly gold sales of 34,609 ounces representing a 27% increase over the comparable period of 2007.
- Generated cash flows from operating activities of \$14.8 million or \$0.16 per share compared to \$3.4 million or \$0.04 per share in the first quarter of 2007.
- Produced a record 33,253 ounces at a cash operating cost of \$366 per ounce of gold sold (total cash cost inclusive of royalties of \$414 per ounce of gold sold).
- Realized an operating cash margin per ounce of gold sold of \$483 per ounce compared to \$259 per ounce in the first quarter of 2007, an increase of 86%.

Subsequent to the end of the first quarter, the Company:

- Announced record monthly gold production of 12,115 ounces in April 2008.
- Reported the successful commissioning of the conveying and stacking system.
- Repaid \$5.5 million or approximately 70% of its outstanding capital lease obligations from operating cash flows.
- Elected to convert its outstanding convertible debenture liability, resulting in retiring a \$1.4 million liability through the issuance of 258,677 common shares and a cash payment of \$0.1 million.

### **Results of Operations**

In the first quarter of 2008, the Company reported record gold sales and gold production. Operational improvements implemented in 2007 have significantly benefited mining operations and contributed to higher gold production and reduced operating costs. These factors combined with appreciably higher gold prices, have resulted in the Company's strong financial performance in the first quarter of 2008.

Gold production in the first quarter of 2008 was 33,253 ounces or 33% higher than gold production of 24,940 in the first quarter of 2007. Gold sales in the first quarter of 2008 increased 27% over the comparable period of 2007 to 34,609 ounces. The table below outlines key quarterly production indicators during the first quarters of 2008 and 2007:

<b>Production summary</b>	<b>Q1 2008</b>	<b>Q1 2007</b>	<b>Change (#)</b>	<b>Change (%)</b>
Ounces produced <sup>(1)</sup>	33,253	24,940	8,313	33%
Ore mined (tonnes)	1,230,000	1,035,000	195,000	19%
Waste mined (tonnes)	1,653,000	2,321,000	(668,000)	(29%)
Total mined (tonnes)	2,883,000	3,356,000	(473,000)	(14%)
Ore crushed (tonnes)	1,244,000	1,050,000	194,000	18%
Ore mined per day (tonnes)	13,500	11,400	2,100	18%
Ore crushed per day (tonnes)	13,670	11,500	2,170	19%
Waste-to-ore ratio	1.34	2.24	(0.90)	(40%)
Grade (g/t Au)	2.34	1.73	0.61	35%

<sup>(1)</sup> Reported gold production for Q1 2007 has been adjusted to reflect final refinery settlement. Reported gold production for Q1 2008 is subject to final refinery settlement and may be adjusted.

The Company achieved significant increases in ore mined and crushed during the first quarter of 2008 compared to the same period of 2007. Throughout 2007, the Company used excess haul truck capacity caused by lower than planned crusher throughput to reorganize the open pit and move additional waste. As a result, mining operations were more efficient in the first quarter of 2008, contributing to a 19% increase in ore mined and a 29% decrease in waste mined, in line with the Company's budget. Also in 2007, the Company commissioned a new crusher which has improved the Company's ability to meet its targeted crusher throughput rates. Average daily crusher throughput of 13,670 in the first quarter of 2008 represented a 19% improvement over the comparable period of 2007. The grade of ore crushed and stacked in the first quarter of 2008 was 35% higher than in the prior year period and above the Company's budgeted grade.

The operational changes made in 2007 have demonstrated measurable improvements in both operating and production statistics, which in turn have contributed to cost efficiencies and lower costs per tonne. The following table compares costs per tonne in the first quarter of 2008 to the first quarter of 2007 and the 2007 year:

<b>Costs per tonne summary</b>	<b>Q1 2008 (3 months)</b>	<b>Q1 2007 (3 months)</b>	<b>Change (%)</b>	<b>2007 (12 months)</b>
Mining cost per tonne of material (ore and waste)	\$1.50	\$1.31	15%	\$1.34
Waste-to-ore ratio	1.34	2.24	(40%)	2.50
Mining cost per tonne of ore	\$3.51	\$4.25	(17%)	\$4.67
Crushing cost per tonne of ore	\$2.24	\$2.23	(0%)	\$2.51
Processing cost per tonne of ore	\$2.22	\$2.16	2%	\$2.39
Mine administration cost per tonne of ore	\$1.47	\$1.11	32%	\$1.70
<b>Total cost per tonne of ore</b>	<b>\$9.44</b>	<b>\$9.75</b>	<b>(3%)</b>	<b>\$11.27</b>

Total cost per tonne of ore in the first quarter of 2008 was \$9.44 or 3% lower than the \$9.75 incurred in the same period of 2007. The lower total cost per tonne of ore in the first quarter of 2008 is attributable to a 17% decrease in the mining cost per tonne of ore, offset by a 32% increase in mine administration cost per tonne of ore. Mining cost per tonne of ore benefited from a 40% lower waste-to-ore ratio in the first quarter of 2008. Higher administration cost per tonne of ore is due to increases in the Company's community relations, camp and general mine administration costs.

Mining costs per tonne of material was \$1.50 in the first quarter, representing a 15% increase over the first quarter of 2007. Higher costs per tonne of material were the result of a 14% decrease in the total tonnes of material mined, and increases in drilling and blasting costs in the first quarter of the year compared to the same period of 2007.

Mining cost per tonne of ore in the first quarter of 2008 was \$3.51, or 17% below the first quarter of 2007. The decrease in mining cost per tonne of ore is due primarily to a 19% increase in the tonnes of ore mined in the first quarter of 2008 compared to in the same period of 2007 and to a 40% decrease in the waste-to-ore ratio.

Crushing cost per tonne of ore in the first quarter of 2008 was \$2.24, consistent with the prior year period. The Company commissioned a new stage of crushing in 2007. Additional costs associated with this new stage of crushing and an enhanced preventative maintenance schedule have been offset on a per tonne basis through operational efficiencies resulting in higher crusher throughput. Crusher throughput averaged 13,670 tonnes per day in the first quarter of 2008.

Processing cost per tonne of ore in the first quarter of 2008 was \$2.22 compared to \$2.16 in the comparable period of 2007. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. The conveying and stacking system was commissioned in April 2008 and is expected to result in lower lime costs as the lime-application process has been mechanized. In addition, the costs of truck-hauling and stacking ore on the leach pad will decrease. These cost savings are expected to be partially offset by costs associated with salary and energy costs from operation of the conveying and stacking system. The Company also expects that it will begin the cement agglomeration process during the second quarter of 2008. This will result in the addition of cement costs to

the Company's processing cost structure. Cost increases associated with cement agglomeration could be significant, but will be partially offset by lower lime costs resulting from reduced lime 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 through the remainder of 2008.

Mine administration cost per tonne of ore in the three-months ended March 31, 2008 was \$1.47 compared with \$1.11 in the same period of 2007. The increase in mine administration cost per tonne of ore is due to increased community relations spending, camp costs, environmental, permitting and general mine administration costs.

Cash operating cost per ounce of gold sold increased 11% to \$366 in the first quarter of 2008 compared to \$332 in the first quarter of 2007. The Company's cash operating costs have increased compared to the first quarter of 2007, however, they have decreased significantly (22%) from \$469 per ounce in the fourth quarter of 2007.

The Company's reported cash operating costs per ounce are significantly affected by gold recoveries. Bottle roll recoveries on blast hole ore in the first quarter of 2008 averaged 65%. These recovery results are supported by column testing. Column testing of the February 2008 composite crushed ore samples show recovery of 44% after 26 days. January 2008 column tests show recoveries in excess of 70% after 53 days. 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. The Company has resolved the issue of crush size by introducing a new crusher into the production process, and is addressing percolation issues through the new conveying and stacking system and future plans for cement agglomeration.

Crush size in the first quarter of 2008 reached the optimal level of 80% passing 3/8<sup>th</sup> of an inch. Crush size is a key determinant of ultimate gold recovery for the Estrella deposit. 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 Company has expanded and reconfigured the leach pad to optimize available leach areas and solution management. Going forward, stacking heights will be limited to between twenty and thirty meters before inter-lift liners are applied.

The Company has commissioned the conveying and stacking system which will reduce the potential compaction associated with truck-loading ore on the leach pad. The conveying and stacking system together with the automated lime application process and inter-lift liners, should result in improved pH control and reduced costs. The Company intends to begin belt cement agglomeration once the cement silos are delivered.

A final improvement in the production process will be the addition of a new train of carbon recovery tanks to process lower grade solution from the leach pad, which would otherwise be stored in the ponds or recirculated.

### **Cautionary Non-GAAP Statements**

The Company believes that investors use certain indicators to assess gold mining companies. They are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared with GAAP. "Cash flow from operating activities before changes in non-cash working capital" is a non-GAAP performance

measure which could provide an indication of the Company's ability to generate cash flows from operations, and is calculated by adding back the change in non-cash working capital to "Cash provided by (used for) operating activities" as presented on the Company's consolidated statements of cash flows. "Mining cost per tonne of ore" is a non-GAAP performance measure which could provide an indication of the mining and processing efficiency and effectiveness at the Mine. It is determined by dividing the relevant mining and processing costs by the tonnes of ore processed in the period. "Cost per tonne of ore" is usually affected by operating efficiencies and waste-to-ore ratios in the period. "Cash operating cost per ounce" and "total cash cost per ounce" as used in this analysis are non-GAAP terms typically used by gold mining companies to assess the level of gross margin available to the Company by subtracting these costs from the unit price realized during the period. These non-GAAP terms are also used to assess the ability of a mining company to generate cash flow from operations. There may be some variation in the method of computation of "cash operating cost per ounce" as determined by the Company compared with other mining companies. In this context, "cash operating cost per ounce" reflects the cash operating cost allocated from in-process and dore inventory associated with ounces of gold sold in the period. "Cash operating cost per ounce" may vary from one period to another due to operating efficiencies, waste-to-ore ratios, grade of ore processed and gold recovery rates in the period. "Total cash cost per ounce" includes "cash operating cost per ounce" plus applicable royalties.

### Financial Highlights

A summary of the Company's financial results for the three-month periods ended March 31, 2008 and 2007 is presented below:

	Q1 2008	Q1 2007
Cash provided by operating activities before changes in non-cash working capital (000) <sup>(1)</sup>	\$11,376	\$4,940
Changes in non-cash working capital (000)	\$3,425	(\$1,523)
Cash provided by operating activities (000)	\$14,801	\$3,417
Earnings before income taxes (000)	\$9,154	\$2,023
Earnings (000)	\$5,704	\$1,189
Earnings per share – basic and diluted	\$0.06	\$0.01
Weighted average number of common shares outstanding		
- basic	94,739,000	93,726,000
- diluted	96,731,000	96,523,000

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

The Company reported record quarterly financial results in the first quarter of 2008. A high realized gold price combined with record gold sales contributed to the Company generating \$11.4 million in cash from operating activities before changes in non-cash working capital, and \$14.8 million (\$0.16 per share) after changes in non-cash working capital. The \$14.8 million cash provided by operating activities represents a 333% increase over the \$3.4 million (\$0.04 per share) generated in the first quarter of 2007. Changes in non-cash working capital

resulted in a use of cash of \$1.5 million in the first three months of 2007 as the Company was investing in its gold inventory and Mexican value added tax receivable balances.

The Company recognized earnings before income taxes of \$9.2 million in the first quarter of 2008 compared to \$2.0 million in the same period of 2007, an increase of 352%.

The Company recorded earnings of \$5.7 million or \$0.06 per share. These results were due primarily to a 44% increase in the realized gold price per ounce and a 27% increase in the number of gold ounces sold in the first quarter of 2008 compared to the same period of 2007.

## Gold Sales

Details of gold sales are presented below:

	Q1 2008	Q1 2007	Change (%)
Gold sales (ounces)	34,609	27,200	27%
Gold sales revenues (000)	\$31,030	\$16,958	83%
Realized gold price per ounce	\$897	\$623	44%
Average gold price for period (London PM Fix)	\$925	\$650	42%

Gold sales revenues of over \$31 million increased 83% in the first quarter of 2008 million compared to the same period of 2007 as a result of a 44% increase in the realized gold price per ounce and a 27% increase in the number of ounces sold. The number of ounces sold increased in the first three months of 2008 compared to the same period of 2007 as a result of higher gold production.

The Company realized an average gold price of \$897 per ounce in the first quarter of 2008, compared to an average London PM Fix spot gold price of \$925 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 a steadily increasing gold price environment, the Company's realized gold price per ounce will generally be lower than the average London PM Fix spot gold price.

## Assessment of Gold Market

The price of gold in the first quarter of 2008 increased steadily to over \$1,000 an ounce in mid-March 2008, before retracing to its current level of approximately \$865 an ounce. The Company is fully leveraged to increases in the price of gold. At current gold prices, the Company realizes an operating cash margin (before taxes and corporate and administrative costs) of between \$400 and \$450 per ounce of gold sold.

## Operating Expenses and Operating Margins

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

	Q1 2008	Q1 2007	Change %
Gold production (ounces) <sup>(1)</sup>	33,253	24,940	33%
Gold sales (ounces)	34,609	27,200	27%
<b>Cash operating costs (000)<sup>(2)</sup></b>	<b>\$12,682</b>	<b>\$9,019</b>	<b>41%</b>
- Per ounce sold	<b>\$366</b>	<b>\$332</b>	<b>10%</b>
Royalties and production taxes (000) <sup>(3)</sup>	\$1,654	\$892	85%
<b>Total cash costs (000)<sup>(4)</sup></b>	<b>\$14,336</b>	<b>\$9,911</b>	<b>45%</b>
- Per ounce sold	<b>\$414</b>	<b>\$364</b>	<b>14%</b>
Amortization (000)	\$4,611	\$2,455	88%
Accretion expense (000)	\$82	\$44	86%
<b>Total production costs (000)<sup>(5)</sup></b>	<b>\$19,029</b>	<b>\$12,410</b>	<b>53%</b>
- Per ounce sold	<b>\$549</b>	<b>\$456</b>	<b>20%</b>
- Realized gold price per ounce	\$897	\$623	44%
- Operating cash margin per ounce <sup>(6)</sup>	\$483	\$259	86%

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

Production from the Mine is subject to a sliding scale production royalty. 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 March 31, 2008, the royalty was paid or accrued on approximately 214,000 ounces of applicable gold production. Royalty expense for the first quarter of 2008 was \$1,654,000 compared to \$892,000 in the same period of 2007 due to higher production applicable to royalty and a 42% increase in the average market price of gold.

## Exploration

Exploration costs charged to operations during the first quarter of 2008 were \$564,000 or 5% lower than the \$593,000 incurred in the first quarter of 2007. Exploration costs in the first quarter of 2008 were focused on drilling at La Yaqui (\$290,000), property tax payments (\$121,000) and administration costs (\$154,000). Comparatively, in the first quarter of 2007 the Company invested in drilling at El Victor (\$240,000) and Los Bajios (\$50,000), property tax payments (\$91,000) and administration costs and other minor projects (\$212,000).

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 the first quarter of 2008 of \$564,000, approximately \$616,000 of costs related to drilling the Puerto del Aire zone immediately adjacent to the existing Estrella Pit were capitalized to mine development.

## Corporate and Administrative

Corporate and administrative expenses of \$1,028,000 in the first quarter of 2008 were 18% higher than the \$872,000 incurred in the first quarter of 2007. The key components of this expense are detailed below:

	Q1 2008 (\$000)	Q1 2007 (\$000)
Salaries and management fees	454	412
Legal and audit	107	85
Office and administration	204	159
Shareholder communications	93	79
Travel and accommodation	115	60
Trust and filing fees	55	77
	<b>1,028</b>	<b>872</b>

Salaries and management fees of \$454,000 in the first quarter of 2008 were 10% higher than in the same period of 2007 due to primarily to increased headcount at the Company's administration office in Hermosillo, Mexico and due to higher directors' fees. Legal and audit costs of \$107,000 in the first quarter of 2008 were 26% higher than in the same period of 2007 due primarily to increases in audit fees. Increases to office and administration, shareholder communications and travel and accommodation costs reflect increased corporate activity. Corporate and administrative costs in 2008 are expected to be between \$4.0 and \$4.5 million, exclusive of unusual items.

## Stock-based Compensation

Stock-based compensation expense in the first quarter of 2008 was \$970,000 compared to \$438,000 in the comparable period of 2007. The value of stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholders' equity.

In order to promote employee retention, the Company implemented vesting provisions for all stock option grants effective December 2005. 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 the first quarter of 2008 is due to the amortization of the fair value of all of the 2,472,000 options granted in 2007. Stock-based compensation expense in the first quarter of 2007 excludes any cost related to the 2007 stock option grants as they were all granted subsequent to March 31, 2007.

Total stock-based compensation expense in 2008 related to options that were outstanding at the beginning of 2008 is expected to be approximately \$3.3 million. Any additional grants in subsequent periods of 2008 will increase this expense.

### **Accretion of Asset Retirement Obligation**

The asset retirement obligation on the Company's balance sheet of \$3,410,000 at March 31, 2008 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 the first quarter of 2008 was \$56,000 compared to \$44,000 in the first quarter of 2007. Changes in the Company's estimate of expected future cash outflows at the end of the life of the mine resulted in a decrease to the asset retirement obligation liability at period-end. Accretion expense in 2008 is expected to be approximately \$225,000. The Company is awaiting an independent third-party report assessing the Company's mine closure plan. This report will be the first update since the feasibility study, and the Company intends to update its expected future cash outflows associated with mine closure to correspond to the work requirements presented in the revised closure plan.

### **Employee Future Benefits**

In April 2006, the Company established a subsidiary employment services company in Mexico. Prior to this, all staff were contract workers paid through an independent third-party company. The transition to a subsidiary company resulted in the Company being required to recognize employee future benefit liabilities associated with its Mexican 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 March 31, 2008, the Company had accrued an employee future benefit liability of \$581,000. Employee future benefits expense of \$26,000 in the first quarter of 2008 is a non-cash charge reflecting the increase in the present value of the employee future benefit liability.

### **Interest Income**

Interest income in the first three months of 2008 was \$48,000, compared to \$64,000 in the same period of 2007 due to higher average cash balances in January and February of 2007 compared to the same months of 2008. The Company expects to earn higher interest income through the remainder of 2008 as the Company substantially increased its cash holdings near the end of the first quarter of 2008.

## Interest Expense

Interest expense for the three-month periods ended March 31, 2008 and 2007 is composed of the following:

	Rate	Q1 2008 (\$000)	Q1 2007 (\$000)
Convertible debentures	5.5%	20	17
Capital lease obligations	LIBOR + 4.1%	148	197
Bank loan	LIBOR + 2.25% (drawn)	20	77
		<b>188</b>	<b>291</b>

Interest expense on the convertible debenture of \$20,000 in the first quarter of 2008 is consistent with the prior year period. Subsequent to quarter-end, the Company issued a conversion notice to convertible debenture holders, and all outstanding convertible debentures were converted or redeemed. Accordingly, there will no future interest expense associated with the convertible debentures.

Interest expense on capital lease obligations in the first quarter of 2008 was \$148,000 compared to \$197,000 in the comparable period of 2007. The decrease in interest expense related to capital leases reflects a lower average capital lease obligation balance in the first three months of 2008 compared to the same period in 2007. Subsequent to quarter-end, the Company repaid approximately \$5.5 million or 70% of its outstanding capital lease obligation balance. Future interest costs related to capital lease obligations will be reduced accordingly.

The Company repaid the bank loan in full in the fourth quarter of 2007, and did not draw from the facility in the first quarter of 2008. A stand-by charge equal to 0.75% of the undrawn balance is charged. In order to reduce this standby charge over the remaining term of the bank line of credit facility, the Company has requested that the facility be cancelled effective immediately. Future interest costs associated with the bank loan are expected to be minimal. The Company is currently in negotiations for a replacement facility that will be used to help finance future production expansions and development projects.

## Accretion of Convertible Debenture Discount

Accretion of the convertible debenture discount in the first quarter of 2008 of \$19,000 compared to \$15,000 in the same period of 2007. Accretion expense will be nil in future periods as the convertible debentures have been either converted or redeemed.

## Foreign Exchange Loss

The Company recognized a foreign exchange loss of \$174,000 in the first quarter of 2008. During the quarter, the value of the Mexican peso strengthened against the United States dollar. The majority of the Company's future tax liability is denominated in Mexican pesos. On revaluation of this future tax liability, the Company recognized a \$180,000 foreign exchange

loss. Significant volatility in the value of the Mexican peso compared to the United States dollar could continue to result in foreign exchange gains or losses.

In the first quarter of 2007, the Company recognized a foreign exchange loss of \$176,000 due to the effect of a weakening Mexican peso against the United States dollar on the Company's net Mexican peso-denominated monetary asset position in Mexico.

The Company's exposure to foreign exchange gains or losses on its Canadian dollar-denominated financial assets and liabilities in the first quarter of 2008 was minimal given that the Company's Canadian dollar denominated assets (cash holdings and available-for-sale securities) offset the Company's Canadian dollar denominated liabilities (convertible debentures). The convertible debentures were converted or redeemed in April 2008. Accordingly, the Company will be exposed to foreign exchange gains or losses in future periods on its Canadian dollar denominated cash and investment holdings.

### **Income Taxes**

Current tax expense in the first quarter of 2008 of \$3,650,000 compared to \$134,000 in the same period of 2007. In the first quarter of 2008, the new Single Rate Tax Law came into effect in Mexico and the Company used the last of its tax loss carry-forwards in Mexico on a pro-rata annual basis. As a result, the Company is now cash taxable in Mexico and must calculate and remit taxes payable on a monthly basis. The Company recorded a future income tax recovery of \$200,000 in the first quarter of 2008 compared to future tax expense of \$700,000 in the first quarter of 2007. The effective tax rate in the first quarter of 2008 was 38% compared to 41% in the first quarter of 2007. The effective tax rate is higher than the statutory income tax rate in Mexico of 28% due to certain specific items that are not deductible for tax purposes and due to taxable inflation gains in Mexico that are not included in earnings for accounting purposes. The application of the new single rate tax did not impact the Company's current tax expense in the first quarter of 2008, but may in future periods.

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.

## 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.

	Q2 2006	Q3 2006	Q4 2006 (Re- stated)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Gold production (ounces)	23,620	24,880	31,720	24,940	28,200	21,670	31,390	33,253
Gold sales (ounces)	23,780	19,500	25,270	27,200	30,880	23,170	27,029	34,609
Gold sales (\$000)	14,700	12,165	15,299	16,958	20,797	15,590	20,683	31,030
Earnings (loss) from operations (\$000)	2,188	1,634	1,175	2,558	2,941	1,062	830	9,153
Earnings (loss) (\$000)	(287)	835	(1,469)	1,189	1,888	117	(260)	5,703
Earnings (loss) (\$ per share) – basic and diluted	(0.08)	0.01	(0.01)	0.01	0.02	0.00	(0.00)	0.06

Commercial production commenced in the second quarter of 2006; however, a loss was reported 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 will 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 have resulted in record gold sales, earnings from operations and earnings in the first quarter of 2008.

## Financial and Other Instruments

The Company's financial assets and liabilities consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and current and future income tax liabilities, some of which are denominated in Canadian dollars or Mexican pesos. The Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar.

The Company's cash and cash equivalents may be invested in short-term liquid deposits or investments which provide a revised rate of interest upon maturity. At March 31, 2008 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 cash balances, outstanding amounts receivable, accounts payable or tax liabilities 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 the exchange rate for the Mexican peso has been relatively stable in recent years. However, if the Mexican peso strengthened significantly against the United States dollar, the Company's operating costs would be adversely affected. A 10% increase in the value of the Mexican peso compared to the United States dollar could increase the Company's reported mining and processing costs by approximately \$2.5 million annually.

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 practice.

### Investment in Mineral Property, Plant and Equipment

A breakdown of the cash invested in mineral property, plant and equipment for the three-month period ended March 31, 2008 is presented below:

	<b>Q1 2008 (\$000)</b>
<b>Construction projects</b>	
Conveying and stacking system	916
Leach pad expansion and inter-lift liners	900
Warehouse	436
Truck shop	313
Camp improvements	204
Laboratory	115
	<b>2,884</b>
<b>Mineral property and mine development</b>	
Acquisitions and Mulatos relocation	661
Puerto del Aire capitalized exploration	616
	<b>1,277</b>
Other mine infrastructure	257
Escondida	279
Mining equipment	551
Office and computer equipment	23
<b>Cash invested in mineral property, plant and equipment</b>	<b><u>5,271</u></b>

Capital spending in the first quarter of 2008 was focused on completion of the conveying and stacking system, completion of the leach pad expansion, application of inter-lift liners and continued progress on the mine construction projects.

In the first quarter, the Company invested \$916,000 on the conveying and stacking system, construction of the related lime application silos and preparatory work in anticipation of the cement agglomeration process. The Company recently announced the commissioning of the conveying and stacking system, which is expected to improve gold recoveries.

Significant spending in the first quarter of 2008 related to the leach pad included completion of the leach pad expansion area and the application of the first phase of inter-lift liners. Investments related to the new warehouse, truck shop, camp and laboratory totaled \$1,068,000 in the first quarter of 2008. All of these projects are expected to improve the efficiency of mine operations and result in lower overall operating costs in future periods. All of these projects are substantially complete, and the Company expects to realize the benefits of these projects in the coming months.

In the first quarter, the Company invested a total of \$661,000 in conjunction with the planned relocation of the town of Mulatos, other land acquisitions and related legal costs. The relocation of the town of Mulatos commenced 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. The Company has recognized a liability of \$1,264,000 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 March 31, 2008. The discounted value of the liability was capitalized to mineral property, plant and equipment.

### **Exploration and Mine Development Activities**

Exploration expenditures in the first quarter of 2008 were focused on near mine reserve expansion and regional exploration. The Company invested a total of \$1,180,000 in the first quarter, of which expenditures totaling \$616,000 were capitalized as mine development costs and \$564,000 were expensed.

Reverse-circulation ("RC") drilling at Puerto del Aire, located immediately adjacent to the Estrella Pit, continued in the first quarter of 2008. Drilling and assaying costs in the first quarter of 2008 at this project totaled \$616,000.

In the fourth quarter of 2007, the Company announced the discovery of a near-surface oxide gold zone at La Yaqui located approximately 9.5 kilometers southwest of the Estrella Pit. Regional exploration in the first quarter of 2008 was focused on in-fill and step-out drilling and assaying activities at La Yaqui. The Company invested a total of \$290,000 at La Yaqui in the first quarter of 2008.

### **Liquidity and Capital Resources**

At March 31, 2008, the Company had \$18.2 million in cash and cash equivalents compared to \$7.8 million at December 31, 2007. The Company's working capital position increased from a

working capital surplus of \$37.9 million at December 31, 2007 to \$44.6 million at March 31, 2008.

Cash flows from operating activities in the first quarter of 2008 were \$14.8 million or \$0.16 per share. The Company reinvested \$5.3 million in capital in the first quarter primarily focused on mine development and infrastructure improvements. Financing activities generated \$0.8 million during the first quarter of 2008.

The Company's strong cash flows from operations in the fourth quarter of 2007 enabled it to repay its bank loan. The Company's continued strong financial performance in the first quarter of 2008 has resulted in significantly higher cash balances. As a result, the Company has undertaken a debt reduction program to substantially reduce its interest-bearing debt obligations. Subsequent to the end of the first quarter, the Company has eliminated its convertible debenture liability through a forced conversion and partial cash payment, and has repaid \$5.5 million or approximately 70% of its outstanding capital lease obligations. In addition, the Company has requested that its bank line of credit be cancelled in order to reduce standby charges on undrawn balances.

The Company expects a higher realized gold price and increased gold sales in 2008 compared to 2007 to continue to contribute to increased cash flows generated from operations and corresponding higher cash balances.

The Company is in the process of evaluating a production decision for the Escondida project. If the Escondida project is determined to be economic, the Company expects to construct a mill and mine the deposit. Expected capital costs associated with this project are not known at this time. The Company expects that based on the current gold price and operating plans, it will be able to finance the construction of the Escondida mill with a combination of current cash balances, cash flows from operations and potential debt financing.

### **Changes in Accounting Policy and Presentation**

Effective January 1, 2008, the Company has adopted the following new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

- Section 1535: Capital Disclosures
- Section 3862: Financial Instruments – Disclosure
- Section 3863: Financial Instruments – Presentation
- Section 3031: Inventories

The impact of these standards on the Company's interim financial statements was primarily to increase the disclosures surrounding the Company's capital management program, financial instruments and inventories.

### **Recent Accounting Pronouncements**

The CICA has issued a new standard that has the potential to affect the Company's financial disclosures and results of operations for interim and annual periods beginning January 1, 2009. In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets". This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective beginning January 1, 2009. Concurrent with the

adoption of this standard, EIC-27, "Revenues and expenditures in the Pre-operating period", will be withdrawn. The Company will assess the impact of these changes on our consolidated financial statements.

### **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.

### **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 quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting, other than changes made to remedy the internal control weakness identified in 2007 regarding accounting for future income taxes.

### **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 March 31, 2008 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 mark-to-market value of these contracts is recorded on the balance sheet. At March 31, 2008, the Company had contracts to sell 2,000 ounces of gold in April at prices below the March 31, 2008 closing market price. Accordingly, a mark-to-market loss of \$16,000 was recognized in other expense and classified within accounts payable and accrued liabilities on the Company's balance sheet.

### **Commitments Table**

The following table summarizes the Company's contractual obligations at March 31, 2008:

**Payments due by period (\$000)**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 year</b>	<b>2 – 3 years</b>	<b>4 – 5 years</b>	<b>More than 5 years</b>
Convertible debenture	-	100	-	-	-
Operating lease	840	120	240	240	240
Capital lease obligations	9,572	6,860	2,712	-	-
Employee future benefits <sup>(1)</sup>	1,160	-	-	-	1,160
Asset retirement obligations	5,388	-	-	-	5,388
Property acquisition obligations	1,462	537	539	386	-
	<b>18,422</b>	<b>7,617</b>	<b>3,491</b>	<b>626</b>	<b>6,788</b>

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

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, quarterly royalty expense is expected to continue to be in the range of \$1.5 to \$1.8 million per quarter.

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 March 31, 2008 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:

	<b>May 6, 2008</b>
Common shares	
- Common shares outstanding	95,241,406
Stock options	
- Average exercise price CDN\$5.69; Approximately 71% vested	6,033,500
<b>Total</b>	<b>101,274,906</b>

## Outlook

In the first quarter of 2008, the Company demonstrated its ability to increase gold production and substantially reduce its cash operating costs compared with the previous quarter. Gold production increased 6% and cash operating costs decreased 22% in the first quarter of 2008 compared to the fourth quarter of 2007.

Improvements that were initiated last year, starting with the expanded crushing circuit, are nearing completion with the commissioning of the conveying and stacking system and expanded and redesigned leach pad. Next, the Company is focused on the completion of the cement agglomeration circuit in the second quarter of 2008, and in the latter half of the year, additional carbon columns will be added in the plant to increase solution processing capacity.

Other capital projects including the warehouse, truck shop, laboratory and camp improvements are substantially complete. The benefits of these projects should start to be realized in the second quarter as the Company's mining operations become more efficient resulting in corresponding reductions in costs.

The Company is forecasting gold sales and gold production of 35,000 ounces in the second quarter of 2008 at a cash operating cost (exclusive of royalties which increase with gold prices), at or below \$385 per ounce.

The results of the evaluation of the economics of mining the Escondida project are expected to be received later in 2008, with a production decision expected shortly thereafter. It is expected that the Escondida project would be financed in part through existing cash balances and cash flows from current mining operations. The Company is currently evaluating other financing options, including bank debt financing.

Drilling at La Yaqui is expected to continue in the second quarter, in addition to new Phase 1 drilling at Cerro Pelon.

## 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.