

ALAMOS GOLD INC.

June 30, 2009

(Unaudited - stated in thousands of United States dollars)

INDEX

Notice to reader

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NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of Alamos Gold Inc. ("the Company") including the accompanying consolidated balance sheets as at June 30, 2009 and December 31, 2008 and the consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the three and six-month periods ended June 30, 2009 and 2008 are the responsibility of the Company's management. The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles for interim financial statements.

ALAMOS GOLD INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited - stated in thousands of United States dollars)

	Note Ref.	June 30, 2009	December 31, 2008
A S S E T S			
Current Assets			
Cash and cash equivalents		\$133,791	\$43,779
Short-term investments		7,000	-
Amounts receivable	4	609	4,850
Advances and prepaid expenses		3,204	636
Available-for-sale securities	5	18	465
Inventory	6	22,049	26,666
		166,671	76,396
Mineral property, plant and equipment	7	134,319	132,872
		\$300,990	\$209,268
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	8	\$8,541	\$10,919
Income taxes payable		603	2,132
Current portion of property acquisition obligations	11	391	332
		\$9,535	13,383
Future income taxes		11,844	11,320
Employee future benefits	9	599	479
Asset retirement obligations	10	4,049	3,780
Property acquisition obligations	11	564	599
Total Liabilities		\$26,591	\$29,561
SHAREHOLDERS' EQUITY			
Share capital	12	\$239,048	\$167,920
Contributed surplus	12	11,212	10,108
Accumulated other comprehensive income		-	(693)
Retained earnings		24,139	2,372
		274,399	179,707
		\$300,990	\$209,268

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited - stated in thousands of United States dollars, except per share amounts)

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
	2009	2008	2009	2008
OPERATING REVENUES				
Gold sales	\$41,978	\$32,337	\$77,498	\$63,366
OPERATING EXPENSES				
Mining and processing	12,487	12,816	24,740	25,499
Royalties	2,245	1,579	4,131	3,233
Amortization	5,694	4,811	10,789	9,422
Exploration	680	474	2,262	1,038
Corporate and administrative	1,361	946	2,874	1,974
Stock-based compensation	2,250	1,450	3,550	2,420
Accretion	83	77	169	159
Employee future benefits	67	9	129	26
	24,867	22,162	48,644	43,771
EARNINGS FROM OPERATIONS	17,111	10,175	28,854	19,595
Interest income	433	73	695	122
Interest expense	-	(125)	-	(312)
Accretion of convertible debenture discount	-	-	-	(20)
Foreign exchange gain (loss)	1,456	(211)	213	(386)
Other (loss) gain	(79)	(271)	627	(204)
Earnings before income taxes for the period	18,921	9,641	30,389	18,795
Income taxes				
- Current expense	(5,910)	(3,840)	(8,580)	(7,490)
- Future (expense) recovery	(42)	390	(42)	590
Earnings for the period	\$12,969	\$6,191	\$21,767	\$11,895
Other comprehensive income				
- Unrealized gain on securities	-	-	455	-
- Reclassification of realized losses on available-for-sale securities to earnings	140	-	238	-
Comprehensive income for the period	\$13,109	\$6,191	\$22,460	\$11,895
Earnings per share for the period				
- basic	\$0.12	\$0.07	\$0.21	\$0.13
- diluted	\$0.12	\$0.06	\$0.20	\$0.12
Weighted average number of common shares outstanding				
- basic	107,604,000	95,221,000	104,603,000	94,980,000
- diluted	110,439,000	97,412,000	106,722,000	97,072,000

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited - stated in thousands of United States dollars)

	Number of shares outstanding	Share capital	Convertible debenture	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total Shareholders' Equity
Balance at December 31, 2007	94,516,231	\$161,042	\$293	\$6,810	\$ -	(\$27,008)	\$141,137
Stock-based compensation				2,420			2,420
Shares issued on exercise of options	659,100	2,114		(407)			1,707
Conversion of convertible debenture	258,677	1,476	(293)				1,183
Earnings						11,895	11,895
Balance at June 30, 2008	95,434,008	\$164,632	\$-	\$8,823	\$-	(\$15,113)	\$158,342

	Number of shares outstanding	Share capital	Convertible debenture	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total Shareholders' Equity
Balance at December 31, 2008	96,527,408	\$167,920	\$ -	\$10,108	(\$693)	\$2,372	\$179,707
Stock-based compensation				3,550			3,550
Shares issued on exercise of options	1,450,000	8,952		(2,446)			6,506
Shares issued on financing	10,410,000	62,176					62,176
Earnings						21,767	21,767
Other comprehensive income					693		693
Balance at June 30, 2009	108,387,408	\$239,048	\$-	\$11,212	\$-	\$24,139	\$274,399

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of United States dollars)

	For the three-month periods ended		For the six-month periods ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash provided by:				
Operating Activities				
Earnings for the period	12,969	\$6,191	21,767	\$11,895
Adjustments for items not involving cash:				
Amortization	5,694	4,811	10,789	9,422
Accretion	83	77	169	179
Employee future benefits	67	-	129	26
Unrealized foreign exchange gain	1,207	522	915	698
Future income taxes	42	(390)	42	(590)
Realized gain on sale of securities	(90)	(8)	(81)	(20)
Stock-based compensation	2,250	1,450	3,550	2,420
Changes in non-cash working capital:				
Fair value of forward contracts	178	184	48	200
Amounts receivable	(84)	581	(1,366)	(1,103)
Inventory	1,035	(163)	3,537	791
Advances and prepaid expenses	(1,753)	841	(2,568)	818
Accounts payable, taxes payable and accrued liabilities	(166)	1,102	1,186	5,264
	21,432	15,198	38,117	30,000
Investing Activities				
Sale (purchase) of securities	991	(31)	1,106	21
Short-term investments	(7,000)	-	(7,000)	-
Mineral property, plant and equipment	(5,698)	(7,144)	(10,892)	(12,415)
	(11,707)	(7,175)	(16,786)	(12,394)
Financing Activities				
Common shares issued	5,063	347	68,681	1,706
Capital lease repayments	-	(8,046)	-	(8,575)
Convertible debenture settled	-	(101)	-	(101)
	5,063	(7,800)	68,681	(6,970)
Net increase in cash and cash equivalents	14,788	223	90,012	10,636
Cash and cash equivalents - beginning of period	119,003	18,170	43,779	7,757
Cash and cash equivalents - end of period	\$133,791	\$18,393	\$133,791	\$18,393
Supplemental information:				
Interest paid	\$-	\$113	\$-	\$341
Income taxes paid	\$3,035	\$1,850	\$3,060	\$1,850

See notes to interim consolidated financial statements

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - stated in United States dollars)

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These unaudited interim financial statements have been compiled in United States dollars in accordance with accounting principles generally accepted in Canada for interim reporting using the same accounting policies and measurement criteria as those utilized in the preparation of the Company’s audited consolidated financial statements for the years ended December 31, 2008 and 2007, except for the changes discussed in Note 3. These interim financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements and related notes thereto.

3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

a) Goodwill and Intangible Assets

The Canadian Institute of Chartered Accountants (“CICA”) issued CICA Handbook Section 3064: Goodwill and Intangible Assets, effective January 1, 2009. This standard clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, startup costs must be expensed as incurred. Adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

b) Recent Accounting Pronouncements

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board confirmed that public companies will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The conversion to IFRS will require the Company to change certain accounting policies, systems, internal controls over financial reporting and disclosure controls. The Company is in the process of completing its IFRS diagnostic to identify the impact of adopting IFRS on its financial statements and will continue to invest in training and necessary resources to complete the conversion.

Business Combinations, Consolidations, Non-Controlling Interests

In January 2009, the AcSB issued the following new Handbook sections: 1582 – Business Combinations, 1601 – Consolidations, and 1602 – Non-Controlling Interests. These standards are effective January 1, 2011. The Company has not yet determined the impact of the adoption of these standards on its consolidated financial statements.

EIC-173 Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009 the Emerging Issues Committee (“EIC”) issued EIC-173. In this EIC the Committee reached a consensus that in determining the fair value of financial assets and financial liabilities an entity should take into account the credit risk of the entity and the counterparty. The Company adopted the EIC in 2008. Adoption had no material impact on the classification or valuation of the Company’s consolidated financial statements.

4. AMOUNTS RECEIVABLE

	June 30, 2009	December 31, 2008
	(\$000)	(\$000)
Accounts receivable	232	432
Mexican value-added tax	377	4,418
	<u>\$609</u>	<u>\$4,850</u>

As permitted by Mexican tax law, the Company offset \$5.6 million of Mexican value-added tax receivables against its current taxes payable liability during the six-month period ended June 30, 2009 (\$nil for the same period of 2008).

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Categories of Financial Assets and Liabilities

Financial instruments are classified into one of the following five categories under Canadian generally accepted accounting principles: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying value of the Company’s financial instruments is classified into the following categories:

	June 30, 2009	December 31, 2008
	(\$000)	(\$000)
Held for trading ⁽¹⁾	140,791	43,779
Gold forward and option contracts designated as held-for-trading ⁽²⁾	(48)	(406)
Available-for-sale	18	465
Loans and receivables ⁽³⁾	609	4,850
Other financial liabilities ⁽⁴⁾	<u>9,448</u>	<u>(11,444)</u>

⁽¹⁾ Includes cash and cash equivalents.

⁽²⁾ Includes the Company’s gold forward sales contracts which are not considered to be effective hedges for accounting purposes. Classified within accounts payable and accrued liabilities in the consolidated balance sheet.

⁽³⁾ Includes amounts receivable.

⁽⁴⁾ Includes accounts payable and accrued liabilities and property acquisition obligations.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop

these estimates. The fair values of the Company's financial instruments are not materially different from their carrying values.

In 2006, the Company sold its La Fortuna property to Castle Gold Corporation ("Castle") for consideration of 2.5 million common shares of Castle and a 1% net smelter royalty on future production from the La Fortuna property. In the six-month period ended June 30, 2009, the Company sold all of its investment in the common shares of Castle (total 2,153,500 shares) for proceeds of \$1,079,000. At June 30, 2009, the Company held other securities valued at \$18,000.

b) Derivative Financial Instruments

The Company may utilize financial instruments to manage the risks associated with fluctuations in the market price of gold and foreign exchange rates. At June 30, 2009, the Company had an outstanding contract to deliver up to 1,000 ounces in the third quarter of 2009, compared to 6,911 ounces under contract at December 31, 2008. The mark-to-market loss associated with this contract at June 30, 2009 was \$6,000.

In addition at June 30, 2009, the Company had foreign currency option contracts to deliver up to \$3,000,000 in United States dollars at Mexican Peso to United States dollar exchange rates ranging from 13.50:1 to 14.25:1. The mark-to-market gain associated with these contracts at June 30, 2009 was \$34,000.

c) Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including commodity price, foreign exchange and interest rate risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company may use derivative financial instruments to hedge certain risk exposures. The Company does not purchase derivative financial instruments for speculative investment purposes.

Risk management is the responsibility of the corporate finance function. The Company's corporate finance function identifies, evaluates and where appropriate, hedges financial risks. Material risks are monitored and are regularly discussed with the Audit Committee of the Board of Directors.

i. Commodity Price Risk

The Company is exposed to commodity price risk associated with the volatility in the market price of gold. Gold prices are affected by factors beyond the Company's control, including central bank sales, producer hedging activities, the relative exchange rate of the United States dollar with other major currencies, global and regional demand and political and economic conditions. Worldwide gold production levels also affect gold prices, and the price of gold can be subject to high levels of short-term volatility due to speculative activities. The Company may enter into derivative financial instruments to manage the Company's exposure to commodity price risk. However at this time, the Company has elected not to actively manage its long-term exposure to commodity price risk through the use of derivative financial instruments.

ii. Foreign Exchange Risk

Certain of the Company's financial assets and liabilities are denominated in Canadian dollars or Mexican pesos. In addition, the Company incurs certain operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company is exposed to

financial gain or loss as a result of foreign exchange movements against the United States dollar, and 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/(decrease) in the value of the Canadian dollar compared to the United States dollar could increase/(decrease) the Company's reported corporate and administrative costs by approximately \$0.5 million annually.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos. Significant cash balances, outstanding amounts receivable, accounts payable or tax liabilities denominated in Mexican pesos could expose the Company to a foreign exchange gain or loss. Recently, the value of the Mexican peso compared to the United States dollar has weakened significantly. The Company attempts to hedge its balance sheet exposure to changes in the Mexican peso/United States dollar exchange rate by maintaining cash balances in Mexican pesos to offset the portion of its future tax liabilities and taxes payable balances that are denominated in pesos. However, transactional foreign exchange gains and losses may still result from the Company's inability to exactly predict the timing of peso cash receipts and cash outflows. Due to the recent volatility in the value of the Mexican peso, transactional foreign exchange gains and losses can be significant. As the Mexican peso weakens against the United States dollar, the Company's operating costs (as reported in equivalent United States dollars) decrease. A 10% decline in the value of the Mexican peso compared to the United States dollar could reduce the Company's reported mining and processing costs and increase reported earnings before income taxes by approximately \$2.5 million annually. Conversely, a 10% increase in the value of the Mexican peso compared to the United States dollar could increase the Company's reporting mining and processing costs and reduce reported earnings before income taxes by the same amount.

iii. Interest Rate Risk

The Company's interest rate risk related to interest-bearing debt obligations is not material as the Company has no outstanding debt. As a result of the Company's minimal exposure to fluctuations in market interest rates, the Company has elected not to enter into interest rate swaps or other active interest rate management programs at this time.

iv. Credit Risk

Credit risk arises from cash and cash equivalents held with banks and financial institutions, derivative financial instruments (including forward gold sales contracts) and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The objective of managing counter-party credit risk is to prevent losses in financial assets. The Company assesses the quality of its counter-parties, taking into account their creditworthiness and reputation, past experience and other factors. The Company only enters into forward gold sales contracts with large reputable financial institutions.

The carrying value of amounts receivable are reduced through the use of an allowance account (when applicable) and the amount of any allowance is recognized as a loss and included in operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for amounts receivable. The majority of the Company's receivable balances consist of Mexican value-added tax recoverable claims. The Company is exposed to credit risk in the case that the tax department of the Mexican government is

unable to pay the amounts receivable. As at June 30, 2009, the Company was owed \$377,000 from the Mexican government.

v. Liquidity Risk

Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash reserves and credit in order to meet its liquidity requirements at any point in time. The Company currently achieves this by maintaining sufficient cash and cash equivalents. As at June 30, 2009 the Company had cash and cash equivalents and short term investments of \$140,791,000. The Company expects that construction of the mill and other ongoing construction projects at its current operations will be financed from existing cash balances. The total cost and planned timing of acquisitions and/or other development or construction projects is not currently determinable and it is not currently known whether the Company will require external financing in future periods.

6. INVENTORY

	June 30, 2009	December 31, 2008
	(\$000)	(\$000)
Precious metals dore and refined precious metals	3,920	3,596
In-process precious metals	9,110	14,617
Parts and supplies	9,019	8,453
	<u>\$22,049</u>	<u>\$26,666</u>

The carrying value of inventory is calculated using weighted average cost. The amount of inventory charged to operations as mining and processing costs during the three and six-month periods ended June 30, 2009 was \$12,368,000 and \$24,118,000. The amount of inventory charged to operations as amortization in the three and six-month periods ended June 30, 2009 was \$3,908,000 and \$7,309,000 respectively.

7. MINERAL PROPERTY, PLANT AND EQUIPMENT

In 2003, the Company acquired a 100% interest in certain properties within the Salamandra group of concessions, comprising approximately 30,325 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 payable at a rate of 5% of the value of gold and silver production. Included within the Salamandra group of concessions is the Mulatos mine which began operations in 2005. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold became subject to royalty.

	June 30, 2009		December 31, 2008
	Cost	Accumulated Amortization	Net Book Value
	(\$000)	(\$000)	(\$000)
Mineral property and mine development	74,590	(15,989)	58,601
Mining plant and equipment	112,773	(37,354)	75,419
Office and computer equipment	744	(445)	299
	\$188,107	(\$53,788)	\$134,319
			\$132,872

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2009	December 31, 2008
	(\$000)	(\$000)
Trade accounts payable	5,840	4,674
Customer advances	-	2,926
Royalties payable	2,245	1,605
Other accrued liabilities	456	1,714
	\$8,541	\$10,919

9. 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 Labour Law, the Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months' wages plus twenty days' wages for each year of service payable upon involuntary termination without just cause.

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

10. 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:

	Six-month period ended June 30, 2009	Year ended December 31, 2008
	(\$000)	(\$000)
Obligations at start of period	3,780	3,460
Revisions in estimated cash flows and changes in assumptions	130	(177)
Liabilities incurred	-	263
Accretion of discounted cash flows	139	234
Obligations at end of period	<u>\$4,049</u>	<u>\$3,780</u>

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

	June 30, 2009	December 31, 2008
Estimated cost (\$000)	7,804	5,681
End of mine life	2018	2014
Discount rate	6.48% - 7.30%	6.48% - 7.30%

The estimated end of mine life was revised to 2018 as a result of a significant increase in the Company's reported reserves.

11. 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 discounted value accretes to the full value of the expected future payments over the period of the payment obligation. At June 30, 2009, the Company has applied a discount rate of approximately 7.00% to expected future payments.

12. 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, 2008	94,516,231	161,042
Exercise of stock options	1,752,500	4,338
Conversion of convertible debenture	258,677	1,475
Transfer of contributed surplus to share capital for exercised stock options	-	1,065
Outstanding at December 31, 2008	96,527,408	167,920
Share financing	10,410,000	62,176

Exercise of stock options	1,450,000	6,506
Transfer of contributed surplus to share capital for stock options exercised	-	2,446
	<u>108,387,408</u>	<u>239,048</u>
Outstanding at June 30, 2009		

b) Share financing

On February 17, 2009, the Company completed a bought-deal financing whereby the Company issued a total of 10,410,000 common shares at a price of CDN\$8.00 for gross proceeds of CDN\$83,280,000. In conjunction with the financing, the underwriters received a cash commission of 5%. Net proceeds of the financing after underwriters commissions, legal, listing and other costs amounted to CDN\$78,725,000 or \$62,176,000.

c) Stock options outstanding and exercisable as at June 30, 2009:

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)
\$3.01 - \$4.00	640,000	3.73	0.92	640,000	3.73
\$6.01 - \$7.00	1,668,000	6.34	3.33	964,400	6.34
\$7.01 - \$8.00	2,077,000	7.43	2.53	1,581,000	7.43
\$8.01 - \$9.00	968,500	8.86	2.42	808,500	8.86
\$9.01 - \$10.00	1,480,000	9.75	4.58	296,000	9.75
	<u>6,833,500</u>	<u>\$7.52</u>	<u>3.00</u>	<u>4,289,900</u>	<u>\$7.06</u>

d) Summary of stock option activity:

	Number	Weighted average exercise price (\$CDN)
Outstanding at January 1, 2008	6,554,500	\$5.52
Granted	1,545,000	6.12
Exercised	(1,752,500)	2.69
Forfeited	(360,500)	7.90
Outstanding at December 31, 2008	5,986,500	\$6.36
Granted	2,300,000	9.13
Exercised	(1,450,000)	5.26
Forfeited	(3,000)	6.00
Outstanding at June 30, 2009	<u>6,833,500</u>	<u>\$7.52</u>

e) Summary of contributed surplus activity:

	<u>Amount</u>
	(\$000)
Balance at January 1, 2008	6,810
Stock-based compensation	4,363
Transfer of contributed surplus to share capital for stock options exercised	<u>(1,065)</u>
Balance at December 31, 2008	\$10,108
Stock-based compensation	3,550
Transfer of contributed surplus to share capital for stock options exercised	<u>(2,446)</u>
Balance at June 30, 2009	<u>\$11,212</u>

13. 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, as amended and ratified on May 25, 2007, May 15, 2008 and April 7, 2009, 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.

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.

During the second quarter of 2009, the Company granted a total of 1,630,000 incentive stock options to purchase common shares in the capital of the Company at exercise prices ranging from CDN\$7.37 to CDN\$9.80 per share. In the second quarter of 2008, the Company granted 1,495,000 incentive stock options at exercise prices ranging from CDN\$6.00 to CDN\$6.76 per share.

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

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
For options granted in the three-month periods ended		
Risk-free rate	1.31%-1.39%	2.75%
Expected dividend yield	nil	nil
Expected stock price volatility	59%-63%	50%
Expected option life, based on terms of the grants (months)	27-40	27-40
Weighted average per share fair value of options granted	\$3.16	\$2.27

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 June 30, 2009, 4,289,900 stock options were exercisable. The remaining 2,543,600 outstanding stock options vest over the following two years. Subsequent to June 30, 2009, 88,000 stock options were exercised at an average exercise price of CDN\$6.82.

14. 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.

	June 30, 2009	December 31, 2008
	(\$000)	(\$000)
Assets, by geographic segment		
- Mexico	221,615	177,868
- Canada	79,375	31,400
	<u>\$300,990</u>	<u>\$209,268</u>

Six-month periods ended	June 30, 2009			June 30, 2008		
	Mexico (\$000)	Canada (\$000)	Total (\$000)	Mexico (\$000)	Canada (\$000)	Total (\$000)
Revenues	77,498	-	77,498	63,366	-	63,366
Earnings (loss)	26,832	(5,065)	21,767	16,455	(4,560)	11,895

15. INCOME TAXES

Effective January 1, 2008, the Company is subject to a new Single Rate Tax Law enacted by the Mexican government on September 28, 2007. Under the new Single Rate Tax Law, the Company's Mexican operating subsidiaries are subject to a tax equivalent to 17.5% (with lower transitional rates in 2009 of 17%) of the Company's revenues less certain allowable deductions (as determined on a cash basis). The single rate tax is payable each year to the extent that it exceeds income tax otherwise payable pursuant to the pre-existing Mexican income tax laws. Any excess single rate tax paid cannot be credited against income taxes payable in future periods. In the six-month period ended June 30, 2009, the application of the new single rate tax did not impact the Company's tax expense.

16. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its shareholders equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders. As at June 30, 2009, total managed capital was \$274,399,000 (December 31, 2008 - \$179,707,000).

The Company's capital structure reflects the requirements of a company focused on sustaining strong cash flows from its current mining operations and financing both internal

and external growth opportunities and development projects. The Company faces lengthy development lead times as well as risks associated with increasing capital costs and project completion timing due to the availability of resources, permits and other factors beyond the Company's control. The Company's operations are also significantly affected by the volatility of the market price of gold.

The Company continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, pay dividends, sell assets or enter into new debt arrangements.

The Company manages its capital structure by performing the following:

- Maintaining a liquidity cushion in order to address any potential operational disruptions or industry downturns
- Preparing detailed budgets and cash flow forecasts for each of mining operations, exploration, development projects and corporate activities that are approved by the Board of Directors
- Regular internal reporting and Board of Directors meetings to review actual versus budgeted spending and cash flows
- Detailed project financial analysis to assess or determine new funding requirements

17. COMMITMENTS AND CONTINGENCIES

a) Royalty

Production from the Mine is subject to a sliding scale production royalty. At current gold prices above \$400 per ounce, the royalty is calculated at a rate of 5% of the value of gold and silver production, less certain deductible refining and transportation costs. The royalty is calculated based on the daily average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. As at June 30, 2009, the royalty was paid or accrued on approximately 420,000 ounces of applicable gold production. Royalty expense for the second quarter of 2009 was \$2.2 million compared to \$1.6 million in the second quarter of 2008.

b) Mulatos Town Relocation

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 residing in Mulatos at the start of the relocation program. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property at a premium to independent third-party valuations and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. Since the start of the relocation effort in 2007, the Company has invested approximately \$5,553,000 in property acquisition, relocation benefits, legal and related costs. In addition, the Company has recognized a liability of \$955,000 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 June 30, 2009. The discounted value of the liability (\$818,500) was capitalized to mineral property, plant and equipment.

During the second quarter of 2008, the Company entered into a land purchase agreement with certain landowners. Pursuant to the land purchase agreement, the Company made a payment of \$1,250,000 in order to secure temporary occupation rights to specified land. An additional payment of \$1,250,000 is payable once the land has been vacated and is transferred to the Company. The probability and timing of this additional payment is currently unknown to the Company and has not been accrued in the consolidated balance sheet.

Additional future property acquisition, relocation benefits, legal and related costs may be material. The Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

c) Mining Equipment Dispute

In 2005, the Company acquired certain used mobile mining equipment from a United States construction company. In 2006, a court judgment was issued in the United States allowing a finance company to repossess the equipment from the construction company which had failed to make required loan payments on the equipment. The Company has been notified that the finance company intends to file suit, and that it will seek various remedies and/or compensation. The Company is in consultation with legal counsel in the United States and Mexico, and intends to defend its position. The Company cannot currently determine the expected cost associated with this dispute, however, such costs could be material. No court judgment has been issued in Mexico or elsewhere against the Company.