

ALAMOS GOLD INC.

December 31, 2007 and 2006
(stated in thousands of United States dollars)

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

March 6, 2008

//signed//John A. McCluskey
John A. McCluskey
President and Chief Executive Officer

//signed//Jon Morda
Jon Morda, CA
Chief Financial Officer

TO THE SHAREHOLDERS OF ALAMOS GOLD INC.

We have audited the consolidated balance sheets of Alamos Gold Inc. [the "Company"] as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

//signed//Ernst & Young LLP

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

ALAMOS GOLD INC.
CONSOLIDATED BALANCE SHEETS

(stated in thousands of United States dollars)

	Note Ref.	December 31, 2007	December 31, 2006
			(Restated – Note 18(a))
A S S E T S			
Current Assets			
Cash and cash equivalents		\$7,757	\$4,878
Restricted cash		-	78
Amounts receivable	4	3,040	6,368
Advances and prepaid expenses		1,520	1,314
Available-for-sale securities	5	1,195	1,174
Inventory	6	36,222	29,549
		49,734	43,361
Mineral property, plant and equipment	7	126,095	117,475
		\$175,829	\$160,836
L I A B I L I T I E S			
Current Liabilities			
Accounts payable and accrued liabilities		\$7,907	\$5,761
Bank loan	10	-	3,000
Current portion of capital lease obligations	9	2,072	1,700
Current portion of property acquisition obligations	12	562	-
		10,541	10,461
Capital lease obligations	9	6,503	6,277
Convertible debenture	10	1,297	1,092
Future income taxes	18	11,445	6,950
Employee future benefits	8	555	350
Asset retirement obligations	11	3,460	2,640
Property acquisition obligations	12	891	-
Total Liabilities		\$34,692	\$27,770
S H A R E H O L D E R S ' E Q U I T Y			
Share capital	13	\$161,042	\$158,971
Convertible debenture	10	293	297
Contributed surplus	13	6,810	3,740
Deficit		(27,008)	(29,942)
		141,137	133,066
		\$175,829	\$160,836

See notes to consolidated financial statements

On behalf of the Board

//signed// John A. McCluskey

//signed// Brian W. Penny

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31

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

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

See notes to consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF DEFICIT
For the years ended December 31

(stated in thousands of United States dollars)

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

See notes to consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31

(stated in thousands of United States dollars)

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

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 more than nine known satellite gold occurrences.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (“GAAP”) in Canada. The United States dollar is both the functional and reporting currency of the Company. Summarized below are those policies considered particularly significant to the Company. References to the Company included herein are inclusive of the Canadian parent company and its consolidated subsidiaries.

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the reporting period. Accounts which require management to make material estimates and significant assumptions in determining amounts recorded include amortization, mineral property, plant and equipment, inventory, asset retirement obligations, property acquisition obligations, employee future benefits, accrued liabilities, future income taxes and contingencies. Actual results could differ from those estimates.

Revenue recognition

Revenue is earned primarily from the sale of gold and is recognized when refined metal is delivered to a purchaser pursuant to a purchase agreement that fixes the quantity and price of the metal for each delivery. Costs incurred or premium income related to forward sales or option contracts are recognized in revenue when the contract is settled. Changes in the fair value of outstanding forward sales or option contracts are recognized in earnings.

Inventory

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

- (i) Dore represents a bar containing predominantly gold by value which must be

refined off-site to return saleable metals. Dore inventory is valued at the lower of average cost to produce the dore and net realizable value.

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

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

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

Mineral property, plant and equipment

a) Mineral property acquisition and mine development costs:

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

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

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

Exploration expenditures on properties not advanced enough to identify their development

potential are charged to operations as incurred. Expenditures incurred on non-producing properties identified as having development potential, as evidenced by a positive economic analysis of the project, are capitalized.

b) Plant and equipment:

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

c) Impairment

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

Foreign currency translation

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

Cash and cash equivalents

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

Financial instruments and financial risk

The Company's financial instruments consist primarily of monetary assets and liabilities, the fair value of which approximate their carrying value due to the short-term nature of these instruments. The Company's convertible debenture liability is presented at amortized cost as calculated using the effective interest rate method. The Company is subject to interest rate risk on its capital lease obligations as interest on these liabilities is calculated with reference to market interest rates.

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

Income taxes

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

Stock-based compensation

The Company has a stock-based compensation plan as described in Note 14. The Company accounts for stock options using the fair value method. Under this method, compensation expense is measured at fair value on the date of grant using the Black-Scholes option pricing model, and is charged as an expense or capitalized, depending on the nature of the grant, in the period the options are vested.

Asset retirement obligations

The Company's mining and exploration activities are subject to various government laws and regulations relating to the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company has made, and will continue to make expenditures to comply with such laws and regulations. Site closure and reclamation costs expected to be incurred in the future are estimated by the Company's management based on the information available to them. A third party consultant was not engaged to provide an independent analysis of the Company's expected future closure costs. Actual site closure and reclamation costs could be materially different from the current estimates. Any change in cost estimates should additional information become available would be accounted for on a prospective basis. The fair value of the future liability for an asset retirement obligation is recognized in the period in which it is incurred with an offsetting amount being recognized as an increase in the carrying amount of the corresponding asset. This asset is amortized on a unit-of-production basis over the estimated life of the mine while the corresponding liability accretes to its future value by the end of the mine's life. Refer to Note 11.

Employee future benefits

The Company is subject to Mexican statutory laws and regulations governing employee termination benefits. Employee future benefits include statutorily mandated accrued benefits payable to employees in the event of termination in certain circumstances. Termination benefits are recognized as an expense and associated liability when the amount can be reasonably estimated at the discounted value of the expected future payments. Refer to Note 8.

Earnings (loss) per share

Earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year. The diluted earnings (loss) per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the

period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period.

3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

a) Financial Instrument Standards

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

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

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

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

Financial Assets and Financial Liabilities

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

Held-to-maturity and Loans and Receivables

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

Available-for-sale

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

Held-for-trading

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

Derivatives and Hedge Accounting

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

Comprehensive Income

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

b) Accounting Changes

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

c) Recent Accounting Pronouncements

In February 2007, the CICA issued Handbook Section 1535, Capital Disclosures which is effective for fiscal years beginning on or after October 1, 2007. This standard requires disclosure of information that enables users of the Company's financial statements to evaluate the entity's objectives, policies and processes for managing capital. The adoption of this standard is not expected to have a significant effect on the Company's financial statements.

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

In June 2007, the CICA issued Handbook Section 3031, Inventories which becomes effective on January 1, 2008. This section requires that inventory be recorded at the lower of cost or net realizable value. This section also clarifies that the allocation of fixed production

overhead requires the consistent use of either first-in, first-out or the weighted average method to measure inventory, and requires that any previous write-downs be reversed when the value of the inventory increases. The amount of the reversal is limited to the amount of the original write-down. The Company is in the process of assessing the impact of this new section on its financial statements.

4. AMOUNTS RECEIVABLE

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

5. AVAILABLE-FOR-SALE SECURITIES

Effective June 15, 2006, the Company sold its La Fortuna property to Castle Gold Corporation ("Castle", formerly Morgain Minerals Inc.) for consideration of 2.5 million common shares of Castle and a 1% net smelter royalty ("NSR") on future production from the La Fortuna property. No gain or loss was recognized on the sale. The share consideration received was initially valued at \$1,100,000 and was classified as available-for-sale securities on the Company's balance sheet. At December 31, 2007 the Company held 2,395,500 shares of Castle with a fair value (\$1,195,000) determined with reference to published price quotations.

6. INVENTORY

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

7. MINERAL PROPERTY, PLANT AND EQUIPMENT

In 2003, the Company acquired a 100% interest in certain properties within the Salamandra group of concessions which currently comprises approximately 28,500 hectares, in consideration for the payment of CDN\$11,154,000. Certain concessions within the acquired properties are subject to a sliding scale net smelter royalty on the first 2,000,000 ounces of gold production. The royalty rate is 5% when the market price of gold exceeds \$400 per ounce.

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

December 31, 2007

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

**December 31, 2006
(Restated)**

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

8. EMPLOYEE FUTURE BENEFITS

The Company accrues employee future benefits for all contract workers paid through its subsidiary employment services company. These benefits consist of a one-time payment equivalent to twelve days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with fifteen or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. Under Mexican Labor Law, the Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus twenty days wages for each year of service payable upon involuntary termination without just cause.

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

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

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

9. CAPITAL LEASE OBLIGATIONS

The Company enters into leasing arrangements with financing companies for mining equipment. As at December 31, 2007, the Company had entered into twelve leases (ten leases at December 31, 2006). The maximum term of each lease is five years, with payments totaling \$245,000 per month over the terms of the leases. The obligations under capital lease bear interest at one-month LIBOR plus 4.1%. The amount of interest expense related to the obligations under capital lease included in the determination of earnings for the year ended December 31, 2007 was \$818,000 (year ended December 31, 2006 - \$654,000). The Company has the right to repay the outstanding balance of the leases at any time.

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

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

10. DEBT

Convertible Debenture

Effective February 2, 2005, the Company issued a CDN\$50 million aggregate principal amount 5.5% convertible unsecured subordinated debenture maturing on February 15, 2010. Interest on the convertible debenture is payable semi-annually in arrears on February 15 and August 15 of each year at an annual rate of 5.5%. Under the terms of the trust indenture, the debenture is convertible into common shares at a rate of 18.86792 common shares for each CDN\$100 principal amount of debenture on maturity.

In the second quarter of 2006, the Company received approval from a majority of the holders of the debenture to amend the terms of the trust indenture to allow for early conversion of the outstanding debenture. Debentures representing CDN\$48,444,000 or approximately 97% of the outstanding balance were converted into common shares at incentive conversion ratios

ranging from 20.3824 to 20.5907 common shares for each CDN\$100 principal of debenture resulting in the issuance of 9,966,982 common shares. In addition, accrued interest related to the converted debentures was settled through the issuance of common shares at 18.86792 common shares per CDN\$100 of accrued interest, resulting in the issuance of 174,520 common shares.

The fair market value of the additional share consideration issued as a result of the induced conversion ratio was allocated to the liability and equity elements of the convertible debenture based on the change in relative fair values between the date of issuance and the date of the conversion. Non-cash debt settlement expense of \$414,000 was classified as other loss and charged to earnings, and \$5,990,000 was charged to retained earnings in the second quarter of 2006.

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

Bank loan

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

11. ASSET RETIREMENT OBLIGATIONS

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

A continuity of asset retirement obligations is as follows:

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

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

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

12. PROPERTY ACQUISITION OBLIGATIONS

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

13. SHARE CAPITAL

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

	Number of Shares	Amount (\$000)
Outstanding at January 1, 2006	77,466,118	87,830
Exercise of stock options	1,337,083	3,758
Conversion of convertible debenture	10,153,014	50,765
Exercise of warrants	4,754,300	15,368
Transfer of contributed surplus to share capital for exercised stock options	-	1,250
Outstanding at December 31, 2006	93,710,515	158,971
Exercise of stock options	801,000	1,695
Conversion of convertible debenture	4,716	21
Transfer of contributed surplus to share capital for exercised stock options	-	355
Outstanding at December 31, 2007	94,516,231	\$161,042

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

Range of exercise prices (\$CDN)	Outstanding			Exercisable	
	Number of options	Weighted average exercise price (\$CDN)	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price (\$CDN)
\$0.50 - \$1.00	50,000	\$0.76	0.08	50,000	\$0.76
\$1.01 - \$2.00	305,000	\$1.13	0.56	305,000	\$1.13
\$2.01 - \$3.00	1,401,500	\$2.43	1.14	1,401,500	\$2.43
\$3.01 - \$4.00	1,080,000	\$3.70	2.34	1,080,000	\$3.70
\$6.01 - \$8.00	2,680,000	\$7.14	3.64	1,126,800	\$7.14
\$8.01 - \$9.00	1,038,000	\$8.89	2.95	810,080	\$8.89
	6,554,500	\$5.52	2.61	4,773,380	\$4.83

c) Summary of stock option activity:

	Number	Weighted average exercise price (\$CDN)
Outstanding at January 1, 2006	5,355,983	\$3.03
Granted	1,235,000	8.89
Exercised	(1,337,083)	3.21
Forfeited	(68,400)	7.19
Outstanding at December 31, 2006	5,185,500	\$4.32
Granted	2,472,000	7.22
Exercised	(801,000)	2.16
Forfeited	(302,000)	7.86
Outstanding at December 31, 2007	6,554,500	\$5.52

d) Summary of contributed surplus activity:

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

14. STOCK-BASED COMPENSATION

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

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

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

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

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

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

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

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

15. SEGMENTED REPORTING

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

	December 31, 2007	December 31, 2006 (Restated)
	(\$000)	(\$000)
Assets, by geographic segment		
- Mexico	173,890	156,266
- Canada	1,939	4,570
	<u>\$175,829</u>	<u>\$160,836</u>

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

16. EARNINGS (LOSS) PER SHARE

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

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

17. COMMITMENTS AND CONTINGENCIES

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

The Company commenced the planned relocation of the town of Mulatos in 2007. Relocation contracts have been signed with in excess of half of the families resident in Mulatos. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. In 2007, the Company capitalized approximately \$2,178,000 in property acquisition, relocation benefits, legal and related costs. The Company has also recognized a liability of \$1,453,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at December 31, 2007. The discounted value of the liability was capitalized to mineral property, plant and equipment. Although future property acquisition, relocation benefits, legal and related costs may be material, the Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

18) INCOME TAXES

a) Restatement

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

The prior year financial statements have also been adjusted to recognize a future tax liability related to the 2003 acquisition of National Gold Corporation, the company which previously owned the Company's wholly-owned subsidiary, Minas de Oro Nacional, S.A. de C.V. and related mineral properties. No future tax liability had previously been recorded in respect of the portion of mineral properties acquired for which there was no tax basis. The value attributed to the underlying mineral properties and related expenditures on the allocation of the purchase price has been increased by approximately \$3.9 million to reflect future tax liabilities totaling approximately \$3.9 million. As a result, amortization expense and accumulated amortization for 2006 increased by \$270,000. These non-cash adjustments have no impact on the Company's net cash flows, cash balances or accumulated deficit as at December 31, 2005.

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

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

b) Rate Reconciliation

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

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

c) Future tax reconciliation

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

December 31, 2007	Canada	Mexico	Total
	(\$000)	(\$000)	(\$000)
Future tax assets			
Non-capital losses	7,340	1,480	8,820
Capital losses	3,960	-	3,960
Financing costs	600	-	600
Asset retirement obligations	-	960	960
Valuation allowance	(11,900)	-	(11,900)
	-	2,440	2,440
Future tax liabilities			
Inventory	-	(1,642)	(1,642)
Mineral property, plant and equipment	-	(12,243)	(12,243)
	-	(13,885)	(13,885)
Net future tax liabilities	-	(11,445)	(11,445)

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

d) Loss Carry-forwards

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

19. RECLASSIFICATION

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