

ALAMOS GOLD INC.
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 and six-month periods ended June 30, 2007 compared with the three and six-month periods ended June 30, 2006. 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 period. The Company's functional and reporting currency is the United States dollar. This MD&A is current to August 3, 2007 and should be read in conjunction with the Company's Annual Information Form and other corporate filings available at www.sedar.com ("SEDAR"). Management is responsible for the 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") for interim financial statements. Refer to Note 2 of the December 31, 2006 and 2005 consolidated financial statements for disclosure of the Company's significant accounting policies. Refer to Note 3 of the June 30, 2007 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 and more than nine other prospective exploration targets.

The Company achieved commercial production at its Mulatos mine (the "Mine") on April 1, 2006. Phase 1 development of the Mine was completed in February 2006 following the commissioning of its crusher and conveying system. Planned ore production in Phase 1 was 10,000 tonnes of crushed ore per day. The Company achieved intermittent Phase 2 expansion rates of 15,000 tonnes of crushed ore per day beginning in the third quarter of 2006. The Company produces gold in dore bars for shipment to a refinery. Gold may be sold in refined form or as dore.

Ore production from the Mine is derived from the Estrella Pit. Proven and probable reserves in the Estrella Pit as at December 31, 2006 were 31.9 million tonnes grading 1.64 grams per tonne of gold ("g/t Au") or approximately 1.7 million contained ounces of gold.

Global proven and probable reserves for the Estrella Pit, Escondida and El Salto/Mina Vieja areas as at December 31, 2006 totaled 39.7 million tonnes grading 1.61 g/t Au representing approximately 2.1 million contained ounces of gold. Global measured and indicated resources (inclusive of reserves) are 86.4 million tonnes grading 1.24 g/t Au at a 0.5 g/t Au cut-off, or approximately 3.4 million contained ounces of gold. The Company expects to announce resources at the El Victor project area in the third quarter of 2007.

The Salamandra group of concessions surrounding the Mine consists of 28,500 hectares of mining claims that contain both advanced and grassroots exploration prospects. There are several advanced exploration projects near the Estrella Pit that have the potential to continue to add resources and reserve ounces to the global Mulatos deposit, including both mineralization extensions and satellite deposits.

Second Quarter 2007 Highlights

During the three-month period ended June 30, 2007, the Company:

- Reported gold sales of 30,880 ounces at an average realized price of \$674 per ounce of gold for gold revenues of \$20.8 million.
- Recognized earnings of \$1.9 million (\$0.02 per share), compared to a loss of \$0.3 million (\$0.08 per share) in the second quarter of 2006.
- Reported cash flows from operating activities of \$4.2 million, compared to \$1.1 million in the second quarter of 2006.
- Produced 28,640 ounces of gold at a cash operating cost of \$358 per ounce of gold sold (total cash cost inclusive of royalties of \$392).
- Realized a cash margin per ounce of gold sold of \$282.
- Achieved the optimal average crush size of ore stacked on the leach pad of 80% passing 3/8th of an inch during the quarter, which is expected to result in improved gold recoveries.
- Encountered additional high-grade gold intercepts at the Gap area including 4.58 meters of 24.73 g/t Au (07EV049) and 7.62 meters of 29.92 g/t Au (07EE029).
- Received the preliminary results of a milling trade-off study indicating potential gold recoveries of up to 95% from Escondida ore.

Results of Operations

Gold production at the Mine in the second quarter of 2007 was 28,640 ounces of gold in dore and gold sales were 30,880 ounces. On a year-to-date basis, the Mine produced 53,950

ounces of gold and gold sales were 58,080 ounces. Reported Mine production is subject to final refinery settlement.

The table below outlines key quarterly production indicators during the second quarter of 2007 compared with the second quarter of 2006 and on a year-to-date basis to June 30, 2007 and 2006:

Production summary	Q2 2007	Q2 2006	YTD 2007	YTD 2006
Gold production (ounces)	28,640	23,620	53,950	44,570
Ore mined (tonnes)	873,000	1,224,000	1,908,000	2,390,000
Waste mined (tonnes)	2,229,000	2,070,000	4,550,000	4,268,000
Total mined (tonnes)	3,102,000	3,294,000	6,458,000	6,658,000
Ore crushed (tonnes)	909,000	612,000	1,959,000	945,000
Ore mined (tonnes per day)	9,600	13,600	10,540	13,350
Ore crushed (tonnes per day)	9,990	6,800	10,820	6,600
Waste-to-ore ratio	2.55	1.69	2.39	1.79
Grade (g/t Au)	1.82	1.65	1.77	1.71

Gold production increased 21% in the second quarter of 2007 compared to the prior year period. Tonnes of ore crushed increased from the second quarter of 2006, but was below budgeted throughput rates of 15,000 tonnes of crushed ore per day.

The Company owns and operates the Mine located on approximately 1,200 hectares of land acquired from the Mulatos Ejido and certain possessors pursuant to a 2004 agreement. In response to the interests of the local community, the Company has been in discussions on a comprehensive relocation plan that is mutually beneficial to the Company and the community at large. During the quarter, members of the local community temporarily restricted access through the main gate of the Mine in an effort to pressure the Company to agree to unreasonable concessions in conjunction with the relocation. The action conducted by this group of individuals restricted the Company's ability to move personnel, goods and services to the Mine for a period of ten days. As a result, mining operations were temporarily suspended resulting in lower than forecast gold production and increased per unit costs for the quarter.

The Company currently has the support of the majority of the local community and is in the process of implementing its relocation plan with the support of local and state governments.

The table below compares costs per tonne in the second quarter and year-to-date in 2007 to the same periods of 2006:

Costs per tonne summary	Q2 2007	Q2 2006	Change	YTD 2007	YTD 2006
Mining cost per tonne of ore and waste	\$1.52	\$1.33	14%	\$1.41	\$1.32
Waste-to-ore ratio	2.55	1.69	51%	2.39	1.79
Mining cost per tonne of ore	\$5.40	\$3.64	48%	\$4.78	\$3.68
Crushing cost per tonne of ore	\$2.84	\$1.99	43%	\$2.51	\$2.14
Processing cost per tonne of ore	\$2.34	\$1.81	29%	\$2.24	\$1.63
Mine administration cost per tonne of ore	\$1.56	\$1.26	24%	\$1.32	\$1.24
Total cost per tonne of ore	\$12.14	\$8.70	40%	\$10.85	\$8.69

The temporary suspension of mining activities during the second quarter of 2007 combined with restrictions in the amount of ore that could be processed through the crusher resulted in the Company mining 29% less ore and 6% less material (ore and waste) than in the second quarter of 2006.

Mining cost per tonne of material was \$1.52 in the second quarter of 2007, approximately 14% higher than the comparable period of 2006. On a year-to-date basis, mining costs were \$1.41 in 2007 compared to \$1.32 in 2006, an increase of approximately 7%. Costs associated with scheduled maintenance on the majority of the Company's mobile equipment fleet are significantly higher in 2007 than in 2006, as the Company is completing component rebuilds. This process occurs every two to three years depending on equipment usage. In addition, the temporary suspension of mining activities negatively affected mining costs per tonne of material as the Company mined 6% less material in the second quarter of 2007 than in the same period of 2006. Mining cost per tonne of ore and waste is expected to decrease throughout the remainder of 2007 as the volume of ore and waste mined is budgeted to increase.

Mining cost per tonne of ore in the second quarter of 2007 was \$5.40, or 48% higher than in the second quarter of 2006. This increase is due to higher budgeted maintenance costs in 2007, a higher waste-to-ore ratio and fewer tonnes mined. The waste-to-ore ratio in the second quarter of 2007 was 2.55, or 51% higher than in the three-month period ended June 30, 2006. The budgeted waste-to-ore ratio for the second quarter was 2.12. Crusher availability was lower than planned in the second quarter, resulting in less ore being mined and an increased waste-to-ore ratio. Bench reconciliations of actual ore mined compared with the reserve model for the quarter indicated that less ore was mined, but at a significantly higher grade resulting in a greater number of ounces being mined than predicted in the reserve model.

Crushing cost per tonne of ore in the second quarter of 2007 of \$2.84 was 43% higher than in the same period of 2006. Per tonne crushing costs are higher than budgeted due to lower than planned crusher throughput. During the second quarter of 2007, the Company focused

on achieving the optimal crusher discharge size of 80% passing 3/8th of an inch. While it achieved this objective, crusher throughput was lower than planned due to higher levels of unscheduled maintenance, a temporary shutdown and the Company's efforts to reduce crusher discharge size. The new crusher was commissioned in July and is expected to assist operations in achieving its budgeted throughput of 15,000 tonnes of crushed ore per day. Higher crusher throughput should result in lower crushing cost per tonne.

Processing cost per tonne of ore in the second quarter of 2007 of \$2.34 increased 29% over prior period levels. Processing costs include expenditures incurred with respect to the leach pad, gold recovery plant and refining activities. The significant cost increase in the second quarter of 2007 compared with the same period of 2006 is primarily attributable to increased consumption of lime and cyanide. The increase in lime consumption is due to higher levels of sulphide ore stacked in 2007 as additional lime is required to balance the pH level of the leach pad. In addition, the per unit cost of cyanide to the Company has increased approximately 25% in 2007 compared to 2006. The Company expects the mechanization of the ore-stacking and lime-application processes to result in cost savings which should offset the increases noted above. The Company has engaged an international engineering firm to complete the design specifications for the overland conveying system. Construction of the overland conveyor is expected to be completed in the fourth quarter of 2007.

Mine administration cost per tonne of ore in the second quarter of 2007 was \$1.56 compared with \$1.26 in the same period of 2006. The majority of the Company's Mine administration costs are fixed in nature. As a result, fewer tonnes of ore crushed results in higher per tonne administration costs. In addition, the Company expensed \$225,000 of costs incurred in relation to the temporary suspension of mining activities in the second quarter.

Cash operating cost per ounce of gold sold was \$358 in the second quarter compared to \$332 in the first quarter of 2007. Cash operating costs per ounce increased 8% in the second quarter as a result of a higher waste-to-ore ratio and costs associated with the ten-day suspension of mining activities. Cash operating costs in the second quarter of 2006 were \$261 per ounce. Higher maintenance, crushing and processing costs in 2007 have resulted in year-to-date cash operating costs of \$346 per ounce being approximately 22% higher than in the comparable period of 2006.

Gold recovery rates are sensitive to crush size with finer crushed material yielding higher gold recovery. The optimal crush size is 80% passing 3/8th of an inch. During the second quarter of 2007, the Company successfully achieved an average size of crushed ore stacked on the leach pad of 80% passing 3/8th of an inch. Monthly bottle-roll tests of this material in the second quarter indicated potential gold recoveries of 55% from ore stacked in April, 58% from ore stacked in May and 63% from ore stacked in June 2007. The reduction in crush size in the second quarter should result in improved gold recoveries, higher future gold production and reduced cash operating costs per ounce.

Gold production is dependent on the Company's ability to meet its targeted rates of crusher throughput. The new crusher has been commissioned and is expected to assist the Mine in maintaining the optimal crush size and increasing throughput to the budgeted level of 15,000 tonnes of crushed ore per day.

Mine site management was strengthened in July 2007 through the addition of two key members. Two highly-qualified expatriates have been hired to lead the Company's

construction and maintenance departments, and are expected to contribute to improved operating efficiency.

Cautionary Non-GAAP Statements

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

Financial Highlights

A summary of the Company's financial results for the three and six-month periods ended June 30, 2007 and 2006 is presented below:

	Q2 2007	Q2 2006	YTD 2007	YTD 2006
Cash provided by operating activities before changes in non-cash working capital (000) ⁽¹⁾	\$7,312	\$5,694	\$12,250	\$9,234
Changes in non-cash working capital (000)	(\$3,092)	(\$4,611)	(\$4,613)	(\$7,678)
Cash provided by operating activities (000)	\$4,220	\$1,083	\$7,637	\$1,556
Earnings (loss) before income taxes (000)	\$3,025	(\$427)	\$5,048	\$445
Earnings (loss) (000)	\$1,888	(\$287)	\$3,077	\$285
Earnings (loss) per share – basic and diluted	\$0.02	(\$0.08)	\$0.03	(\$0.07)

Weighted average number of common shares outstanding				
- basic	93,881,000	83,289,000	93,804,000	81,532,000
- diluted	96,347,000	83,289,000	96,446,000	81,532,000

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

In the second quarter of 2007, the Company generated \$4.2 million in cash flows from operating activities, compared to \$1.1 million in the same period of 2006. Investments in non-cash working capital in the second quarter of 2007 of \$3.1 million were primarily in Mexican value added tax receivables (“IVA”) and parts and supplies inventories, offset by a reduction in dore and gold leach pad inventories. Subsequent to quarter-end, the Company collected \$933,000 in IVA and additional payments were scheduled by Mexican tax authorities, but have not yet been received. The Company has introduced a new parts management system, which should enable it to lower the level of parts and supplies inventories through a reduction in non-essential items, and a more efficient requisitioning system.

For the six-month period ended June 30, 2007 the Company had cash flows from operating activities of \$7.6 million compared to \$1.6 million in the same period of 2006. Cash flows from operations have increased throughout 2007 as the Company has achieved a higher realized gold price, increased the number of ounces of gold sold and has reduced the relative level of its investments in leach pad, dore and parts and supplies inventories.

The Company recognized earnings before income taxes of \$3.0 million in the second quarter of 2007 compared with a loss of \$0.4 million in the same period of 2006. Earnings after income taxes improved from a loss of \$0.3 million in the second quarter of 2006 to earnings of \$1.9 million in the second quarter of 2007.

Gold Sales

Details of gold sales are presented below:

	Q2 2007	Q2 2006	YTD 2007	YTD 2006
Gold sales – ounces	30,880	23,780	58,080	46,450
Gold sales revenues (000)	\$20,797	\$14,700	\$37,755	\$27,190
Realized gold price per ounce	\$674	\$618	\$650	\$585
Average gold price for period (London PM Fix)	\$667	\$627	\$658	\$590

Gold sales revenues were \$20.8 million in the second quarter of 2007, 40% higher than gold sales revenues of \$14.7 million in the second quarter of 2006. The increase in gold sales revenues is due to a combination of a 31% increase in the number of ounces sold and a 9% increase in the Company’s realized gold price. On a year-to-date basis, gold sales revenues have increased 39% to \$37.8 million compared to \$27.2 million in the six-month period ended June 30, 2006. Gold sales increased as a result of higher gold production and improved timing of refinery settlements.

The Company realized an average gold price of \$674 per ounce in the second quarter of 2007, compared to an average London PM Fix spot gold price of \$667 during the period.

Year-to-date, the Company's realized gold price per ounce has improved to \$650 compared to the average year-to-date London PM Fix spot gold price of \$658.

The Company generally contracts for the sale of gold twice monthly, but may fix the price at various points in a quarter with the intent of achieving the average London PM Fix spot gold price for the quarter. Periodically, the Company may fix the selling price by entering into forward gold sales to lock in a favorable price or provide protection from downside risk.

Operating Expenses and Operating Margins

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

	Q2 2007	Change	Q1 2007	Q2 2006
Gold production (ounces) ⁽¹⁾	28,640	13%	25,310	23,620
Gold sales (ounces)	30,880	14%	27,200	23,780
Cash operating costs (000)⁽²⁾	\$11,061	23%	\$9,019	\$6,195
- Per ounce sold	\$358	8%	\$332	\$261
Royalties and production taxes (000) ⁽³⁾	\$1,057	18%	\$892	\$750
Total cash costs (000)⁽⁴⁾	\$12,118	22%	\$9,911	\$6,945
- Per ounce sold	\$392	8%	\$364	\$292
Amortization (000)	\$2,974	21%	\$2,455	\$2,030
Accretion of asset retirement obligations (000)	\$44	-%	\$44	\$39
Total production costs (000)⁽⁵⁾	\$15,136	22%	\$12,410	\$9,014
- Per ounce sold	\$490	7%	\$456	\$379
- Realized gold price per ounce	\$674	8%	\$623	\$618
- Realized cash margin per ounce ⁽⁶⁾	\$282	9%	\$259	\$326

⁽¹⁾ Q1-2007 and Q2-2007 reported gold production is subject to final refinery settlement.

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

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

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

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

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

Production from the Mine is subject to a sliding scale production royalty commencing on commercial production which was established by agreement on April 1, 2006. At current gold prices above \$400, the royalty is set at a rate of 5% of the value of gold and silver, less certain allowed refining and transportation costs. Valuations are based on average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. Royalty expense for the six months ended June 30, 2007 was \$1,949,000 compared to \$750,000 in the same period of 2006.

Exploration

Exploration costs charged to operations during the three months ended June 30, 2007 totaled \$589,000 compared with \$1,468,000 in the same period of 2006. On a year-to-date basis, exploration costs charged to operations were \$1,182,000 compared to \$1,875,000 in 2006.

The decrease in exploration expenditures charged to operations in the second quarter of 2007 and on a year-to-date basis reflects less exploration activity on projects that do not meet the criteria for classification as mine development costs eligible for capitalization. Exploration costs in 2007 have related primarily to drilling in the Gap area, costs associated with modeling the El Victor resource area, administrative expenses and property tax payments. In the second quarter of 2006, the Company incurred comparatively higher exploration costs with respect to the El Victor, San Carlos, El Realito and Los Bajios projects.

Corporate and Administrative

Corporate and administrative expenses were \$798,000 in the second quarter of 2007 compared to \$1,389,000 in the comparable period of 2006. The key components of this expense are detailed below:

	Q2 2007	Q2 2006	YTD 2007	YTD 2006
	(\$000)	(\$000)	(\$000)	(\$000)
Salaries and management fees	369	815	781	1,126
Legal, audit and accounting	66	206	151	248
Office and administration	159	50	318	203
Shareholder communications	60	89	139	192
Travel and accommodation	92	177	152	195
Trust and filing fees	52	52	129	140
	798	1,389	1,670	2,104

Corporate and administrative expenses were 43% lower in the second quarter of 2007 than in the same period of 2006. On a year-to-date basis, corporate and administrative expenses were 21% lower than in the six months ended June 30, 2006. The comparatively lower corporate and administrative expenses in 2007 are primarily due to no bonuses being declared in the first six months of 2007 and lower legal, audit and accounting costs.

Salaries and management fees of \$369,000 in the second quarter and \$781,000 for the six months ended June 30, 2007 were 55% and 31% lower than in the corresponding periods of 2006 due to no bonuses being declared to date in 2007.

Legal, audit and accounting fees of \$66,000 in the second quarter decreased from \$206,000 in the comparable period of 2006. On a year-to-date basis, legal, audit and accounting costs were \$151,000 compared to \$248,000 in 2006. The Company's deregistration from the SEC in June 2007 will significantly reduce the compliance costs associated with the internal control provisions of the Sarbanes-Oxley legislation.

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

Corporate and administrative costs in 2007 are expected to approximate \$3.8 million, exclusive of unusual items.

Stock-based Compensation

Stock-based compensation expense for the three-month period ended June 30, 2007 was \$1,198,000 compared to \$640,000 in the same period of 2006. Stock-based compensation totaled \$1,635,000 in the first half of 2007 compared to \$780,000 in the comparable period of 2006. The value of stock-based compensation expense is added to the contributed surplus account within shareholders' equity, resulting in no net effect on total shareholder's equity.

The Company implemented vesting provisions for all stock option grants in 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.

Higher stock-based compensation expense in the second quarter of 2007 is the result of a comparatively higher number of stock options granted in the period. In the second quarter of 2007, the Company granted 1,990,000 stock options at an exercise price of CDN\$7.29 compared to 985,000 stock options at an exercise price of CDN\$8.90 in the same period of 2006.

Accretion of Asset Retirement Obligation

The asset retirement obligation on the Company's balance sheet of \$2,746,000 as at June 30, 2007 reflects the discounted value of the amount the Company expects to incur on closure of the Mine for reclamation and reforestation activities. The related accretion expense represents the increase in the liability due to the passage of time. Accretion of asset retirement obligation expense of \$89,000 in the first half of 2007 compared to \$77,000 in the comparable period of 2006. Quarterly additions to the asset retirement obligation reflect the recognition of additional liabilities associated with increased volumes in the waste dump.

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 December 31, 2006, the Company accrued an employee future benefit liability of \$350,000. Employee future benefits expense of \$222,000 in the six months ended June 30, 2007 is a non-cash charge reflecting the increase in the present value of the employee future benefit liability to \$572,000.

Interest Income

Interest income in the three and six-month periods ended June 30, 2007 was \$52,000 and \$116,000 respectively, compared to \$123,000 and \$187,000 in the comparable periods of 2006 due to higher average cash balances in 2006.

Interest Expense

Interest expense for the three and six-month periods ended June 30, 2007 and 2006 is composed of the following:

	Rate	Q2 2007	Q2 2006	YTD 2007	YTD 2006
Convertible debentures (\$000)	5.5%	17	570	35	1,147
Capital lease obligations (\$000)	LIBOR + 4.1%	186	155	383	226
Bank loan (\$000)	LIBOR + 2.75% (drawn)	104	80	180	215
		307	805	598	1,588

Interest expense related to the convertible debentures in 2007 of \$17,000 in the second quarter and \$35,000 year-to-date is substantially lower than in the same periods of 2006. In June of 2006, approximately 97% of the outstanding convertible debentures were converted into common shares of the Company. Interest expense related to the remaining outstanding convertible debentures is approximately \$70,000 annually.

Interest expense on capital lease obligations in the second quarter of 2007 was \$186,000 compared to \$155,000 in the three months ended June 30, 2006. In the first half of 2007, interest on capital lease obligations totaled \$383,000 compared to \$226,000 in the same period of 2006. The increases in interest expense related to capital leases is due to a higher capital lease obligation as three additional capital leases have been entered into subsequent to June 30, 2006.

Interest on the Company's revolving credit facility is charged at LIBOR + 2.75% on the drawn portion. In addition, a standby charge equal to 0.75% of the undrawn balance is charged. Higher interest expense was incurred in the second quarter of 2007 compared to the second quarter of 2006 as the outstanding bank loan balance was increased from \$3 million to \$5 million in early June 2007. On a year-to-date basis, interest expense associated with the bank loan was \$180,000 compared to \$215,000 in the same period of 2006. The year-to-date interest expense in 2006 includes certain financing charges which were not incurred in subsequent periods.

Financing Charges

Financing charges in the second quarter and year-to-date in 2007 of \$nil compared with \$161,000 in the second quarter of 2006 and \$301,000 for the six months ended June 30,

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

Accretion of Convertible Debenture Discount

Accretion expense for the three months ended June 30, 2007 of \$16,000 (year-to-date 2007 \$31,000) compared to \$445,000 (year-to-date 2006 \$930,000) in the same period of 2006. The early conversion of the convertible debentures in June of 2006 resulted in a 97% reduction in future accretion expenses related to the convertible debenture. Accretion expense is expected to continue to be minimal in future periods.

Foreign Exchange Loss

The Company recognized a foreign exchange gain of \$166,000 in the three-month period ended June 30, 2007 compared with a foreign exchange loss of \$1,010,000 in the same period of 2006. In the first half of 2007, the Company recognized a foreign exchange loss of \$9,000 compared to \$1,009,000 in the first half of 2006.

The foreign exchange gain in the second quarter of 2007 was attributable to the strengthening of the Mexican peso against the United States dollar during the period. On a year-to-date basis, the Company incurred a nominal foreign exchange loss, as the value of the Mexican peso in United States dollar was consistent at the start and end of the period. The exchange rate decreased marginally from US\$1=10.82 Mexican pesos on January 1, 2007 to US\$1=10.76 Mexican pesos at June 30, 2006, resulting in a minimal foreign exchange loss to the Company on its net Mexican peso-denominated monetary asset position in Mexico.

The significant foreign exchange losses incurred in the second quarter of 2006 were the result of the Company's foreign exchange exposure on its Canadian dollar denominated convertible debenture liability. The Canadian dollar strengthened during this period, increasing the Company's convertible debenture obligation and resulting in a foreign exchange loss.

The Company's exposure to foreign exchange gains or losses on its Canadian dollar-denominated financial assets and liabilities in 2007 is minimal, as the Company's only significant Canadian dollar denominated liability is the outstanding convertible debenture in the amount of CDN\$1,471,000, which is partially offset by the Company's Canadian dollar cash holdings.

Significant volatility in the Mexican peso compared to the United States dollar could result in foreign exchange gains or losses in 2007. Declines in the value of the Mexican peso relative to the United States dollar will result in a foreign exchange loss on the Company's Mexican value added tax receivable, which would be partially offset by the Company's Mexican peso-denominated accounts payable and accrued liabilities.

Income Taxes

Current tax expense in the first half of 2007 of \$271,000 represents a 10% withholding tax on inter-company interest charged by the Company's Canadian parent to the Mexican operating subsidiary. The Company began charging inter-company interest effective October 1, 2006

and will continue to do so throughout 2007. Future withholding tax charges will depend on prevailing interest rates and the timing of re-payment of inter-company loans.

Future income tax expense for the second quarter and year-to-date in 2007 was \$1,000,000 and \$1,700,000 respectively. The Company has provided for future income taxes for the three and six-month periods ended June 30, 2007 using estimated 2007 effective tax rates of 33% and 34%. Statutory tax rates in Mexico and Canada are 28% and 36% respectively. The effective tax rate for 2007 will be adjusted quarterly to reflect the actual level of profits achieved in Mexico, and other factors such as the inflation rate in Mexico and foreign exchange gains and losses, which cannot be forecast with any certainty.

Summary of Quarterly Results

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

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
Gold production (ounces)	2,130	5,517	20,950	23,620	24,880	31,720	25,310	28,640
Gold sales (ounces)	1,000	4,950	22,670	23,780	19,500	25,270	27,200	30,880
Gold sales (\$000)	441	2,285	12,490	14,700	12,165	15,299	16,958	20,797
Earnings (loss) from operations (\$000)	(973)	(2,060)	2,285	2,188	1,634	1,446	2,558	2,941
Earnings (loss) (\$000)	(2,448)	(3,143)	572	(287)	835	856	1,189	1,888
Earnings (loss) (\$ per share) – basic and diluted	(0.03)	(0.04)	0.01	(0.08)	0.01	0.01	0.01	0.02

The Company was in the pre-commercial stage during 2005 and had no significant revenues. Accordingly, losses were reported during these periods. Commercial production commenced in the second quarter of 2006, however, a loss was incurred as significant charges related to the early conversion of the majority of the Company's convertible debenture liability were incurred. The \$0.08 loss per share in the second quarter of 2006 includes a \$5.9 million debt settlement charge to retained earnings in relation to conversion of the convertible debentures. Gold sales revenues and net earnings have increased consistently in the most recent three quarters as the Company has increased the number of gold ounces sold and has realized a higher gold price per ounce.

Financial and Other Instruments

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

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.

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 as the potential exposure related to the Company's Canadian dollar denominated operating costs is currently not significant.

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

At June 30, 2007, the Company had outstanding gold forward contracts to sell 2,700 ounces of gold in July 2007. These contracts were not designated as hedges at inception. The marked-to-market valuation of these contracts resulted in a gain of \$27,000 in the first half of 2007 which has been classified within "other gain" in the Company's financial statements.

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

Investment in Mineral Property, Plant and Equipment

Investments in mineral property, plant and equipment for the three and six-month periods ended June 30, 2007 are as follows:

Investments in:	Q2 2007 (\$000)	YTD 2007 (\$000)
Mineral property and mine development	287	694
Mining equipment	1,181	1,204
Crusher and conveyor	958	2,010
Leach pad expansion	1,289	2,203
Other mine infrastructure	980	1,529
Office and computer equipment	29	45
Investments in mineral property, plant and equipment	4,724	7,685

Capital projects in the second quarter and year-to-date in 2007 were focused on the installation of the new crusher, leach pad expansion, an additional storm water pond, treatment pond and improvements to mine infrastructure.

The Company has commissioned a new crusher between the existing primary and secondary crushers. Expenditures related to the new crusher totaled \$1.3 million in the six-month period

ended June 30, 2007 compared to a budgeted cost of \$1.5 million. The new crusher is expected to improve the Company's ability to crush to the optimal discharge size and to increase crusher throughput capacity. The Company also invested in excess of \$0.7 million in the first half of 2007 on its planned overland conveyor stacking system, which will eliminate truck loading of the leach pad. It is anticipated that this project will reduce leach pad costs, and increase mobile equipment availability as these trucks can be used elsewhere within the Mine. Leach pad expansion activities cost \$2.2 million in the first six months of 2007. Capital investments in the leach pad expansion were significantly above budget due to higher equipment rental costs incurred during construction delays and higher than anticipated leach pad plastic costs. The Company expects the current phase of leach pad construction to be completed in 2007 at an additional cost of approximately \$0.4 million.

Significant investments in mining equipment to date in 2007 include the acquisition of a new Caterpillar D9T dozer at a cost of \$0.9 million.

The Company also invested in excess of \$1.5 million on general mine site infrastructure projects during the first half of 2007. These expenditures were incurred to improve the Company's existing laboratory facilities, truck shop, warehouse, fuel station and process plant.

Capital investments for the remainder of 2007 will continue to focus on improvements to mine site infrastructure. Budgeted capital investments at the Mine for the last half of 2007 are approximately \$6.5 million.

In addition to direct mine capital, the Company is currently in the process of implementing its planned relocation of the town of Mulatos, and negotiating additional land purchases. The Company believes that it currently has the support of the majority of the local residents who desire to relocate.

Exploration and Mine Development Activities

Exploration activities in 2007 are focused primarily on near-mine resource-definition projects at El Victor, Gap, Puerto del Aire and San Carlos and regional exploration at La Yaqui, Los Bajios, Cerro Pelon and El Halcon.

During the second quarter of 2007, the Company invested approximately \$604,000 in exploration activities, of which \$341,000 was incurred in relation to surface exploration drilling at Gap. Other exploration costs during the second quarter related to the El Victor resource estimate, camp and exploration salary costs. On a year-to-date basis, the Company has invested \$1,262,000 million in exploration activities, primarily focused on Gap.

Gap

The Gap area is currently the Company's highest priority exploration target as it has similar geologic characteristics to the high-grade Escondida Hanging Wall Zone. A large, blind area of concealed silica alteration has been identified that hosts both high-grade and thick lower-grade gold intercepts. Gold-bearing intercepts in surface drilling have delineated an area approximately 500 meters long by 150 meters wide, and up to 110 meters thick. Mineralization at the Gap area is continuous with El Victor, with 1,100 meters of strike length identified to date of mineralized intercepts from El Victor through Gap. An additional 250 meters of strike length remains to be explored until the Escondida deposit is encountered.

Surface drilling completed to date has consisted of 34 inclined reverse-circulation holes on roughly 50-meter centers (7,495 meters), stepping out to the west from previous El Victor/Gap intercepts. Drilling has resulted in the identification of several additional high-grade gold intercepts, including 4.58 meters of 24.73 g/t Au (07EV049) and 7.62 meters of 29.92 g/t Au (07EE029). These drill results are in addition to previously reported results including 33.5 meters of 4.09 g/t Au (06EV048) and 25.9 meters of 3.85 g/t Au (06EV047).

Drilling at Gap has been technically challenging. The majority of the drill holes encountered a perched aquifer and could only be drilled under wet conditions. As a result, there is a potential for down-hole contamination from high-grade at the top of the interval. Underground core drilling and development is planned to further assess the zone.

El Victor

The El Victor resource estimate is in progress and on track to be completed in the third quarter of 2007. All drill holes have been processed and assays received. A total of 137 surface and underground holes representing 12,800 meters were drilled in total.

Puerto del Aire

During the second quarter of 2007, the Company compiled data from drilling completed at the Puerto del Aire project, located directly northeast of the Estrella Pit. Potentially ore-grade intercepts extend a minimum of 200 meters beyond the current projected pit margin, suggesting the potential for a pit lay-back. Drilling results to-date include 19.82 meters of 5.10 g/t Au (06PA004), 39.66 meters of 1.36 g/t Au (06PA009), 27.44 meters of 2.30 g/t Au (06PA018), and 47.25 meters of 1.31 g/t Au (06PA019). Additional in-fill and step-out drilling and a resource estimate is planned for the fourth quarter of 2007.

New surface agreements

The 2007 exploration budget of \$5.8 million includes \$3.6 million for exploration drilling at regional targets including Los Bajios, San Carlos, Cerro Pelon, El Realito and El Carricito. In the second quarter of 2007, the Company was successful in securing new surface agreements on the El Halcon, La Yaqui and Cerro Pelon properties. The Company expects to begin Phase 1 and/or follow-up drilling at these targets in the third and fourth quarters of 2007.

Liquidity and Capital Resources

In February 2005, the Company issued a \$40.3 million (CDN\$50 million) 5.5% convertible unsecured subordinated debenture maturing on February 15, 2010, net of a 3.5% underwriters' fee. The debenture bears interest at an annual rate of 5.5%, payable semi-annually in arrears on February 15 and August 15 of each year. The debenture is convertible into common shares at a rate of 18.86792 common shares for each CDN\$100 principal amount of debenture.

In May 2006, the Company received approval from a majority of the holders of the debenture to amend the terms of the trust indenture agreement to allow early conversion of the outstanding debenture. The Company offered debenture holders an incentive conversion ratio, resulting in approximately 97% of the outstanding debentures being converted into common shares of the Company at conversion ratios between 20.3824 and 20.5907 common shares of the Company for each CDN\$100 principal amount of debenture. In conjunction with the conversion, the accrued interest payable to the debenture holders that opted to convert, was paid in common shares at a rate of 18.86792 for each CDN\$100 principal amount of debenture.

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

The Company has an unsecured \$10 million revolving line of credit with a bank, available for general corporate purposes. At June 30, 2007, \$5 million had been drawn on this facility. The bank has indicated a willingness to extend the term of the loan for an additional one-year period to July 2008 in the amount of \$15 million, subject to usual closing conditions.

At June 30, 2007, the Company had \$7.8 million in cash and cash equivalents compared to \$4.9 million at December 31, 2006. In the six-month period ended June 30, 2007 cash flows from operating activities of \$7.6 million were re-invested in mineral property, plant and equipment. Cash flows from financing activities of \$2.9 million resulted in the increase in the Company's cash position.

The Company's working capital position increased throughout the first half of 2007 from a working capital surplus at December 31, 2006 of \$32.9 million to \$38.3 million at June 30, 2007. In the six months ended June 30, the Company generated in excess of \$12.2 million in cash flows from operating activities (before changes in non-cash working capital), of which \$4.6 million was reinvested into non-cash working capital items. Significant investments in working capital in the first half of 2007 included \$3.7 million in amounts receivable, \$1.2 million for in-process and dore gold inventories and \$0.5 million in parts and supplies inventories. The investment for in-process gold inventory reflects all costs required to load gold-bearing ore onto the leach pad for processing into a gold/silver dore product.

The majority of the increase in accounts receivable is due to delays in the reimbursement of recoverable value-added taxes from the Mexican government ("IVA"). The outstanding IVA balance owed to the Company has increased from \$6.2 million at December 31, 2006 to \$9.4 million at June 30, 2007. The Company was recently successful in filing a change of status request, which is expected to improve collection times and reduce the future outstanding receivable balance. In the month of July 2007, the Company collected \$933,000 or approximately 10% of the outstanding balance. While the Company is concerned that collection periods appear to be longer than historical norms, it believes that its filings are supported and has not received any indication from the Mexican government agency responsible for IVA collection that such amounts will not be recovered.

Accounts payable and accrued liabilities increased from \$5.8 million at December 31, 2006 to \$6.1 million at June 30, 2007.

Changes in Accounting Policy and Presentation

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

Adoption of Section 3855, Financial Instruments – Recognition and Measurement, resulted in the Company classifying its investment in the common shares of Morgain Minerals Inc. ("Morgain") as available-for-sale on its interim consolidated balance sheets. The common shares of Morgain were received as consideration on disposal of the Company's La Fortuna

property and certain inactive subsidiaries. At the transaction date, the net book value of the La Fortuna property and the inactive subsidiaries approximated the value of the consideration received of \$1.1 million and no gain or loss was recognized on the transaction.

Available-for-sale financial assets are carried at fair value with changes in fair value recorded in other comprehensive income. In determining fair value, the Company has considered the significance of its Morgain common share holdings and the likelihood that it could readily liquidate its shareholdings at the quoted market price. The Company has determined that the fair value of its holdings is not objectively determinable and is carrying its investment in Morgain shares at historical cost.

The Company holds other investments in securities of publicly-traded corporations which are recorded at historical cost, which approximates fair value, and classified as available-for-sale.

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

The Company has adopted Section 1510, Other Comprehensive Income and has changed the format of its statements of operations and comprehensive income/(loss), and statements of deficit accordingly.

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, 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 most recent interim period ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

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 June 30, 2007 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

Off-Balance Sheet Arrangements

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

At June 30, 2007, the Company had fixed forward contracts to sell 2,700 ounces of gold to counterparties in July of 2007, resulting in the recognition of a marked-to-market year-to-date gain of \$27,000 as the forward contract price was above the June 30, 2007 spot gold price.

Commitments Table

The following table summarizes the Company's contractual obligations at June 30, 2007:

Payments due by period (\$000)

Contractual Obligations	Total	Less than 1 year	2 - 3 years	4 - 5 years	More than 5 years
Convertible debenture	1,613	76	1,537	-	-
Bank loan	5,000	5,000	-	-	-
Operating lease	756	108	216	216	216
Capital lease obligations	9,423	2,511	4,975	1,937	-
Employee future benefits ⁽¹⁾	1,100	-	-	-	1,100
Asset retirement obligations	4,460	-	-	-	4,460
	22,352	7,695	6,728	2,153	5,776

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

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.

The Company cannot currently determine the expected outcome or estimate the costs associated with its intended relocation of the town of Mulatos and any potential additional land acquisitions.

Outstanding Share Data

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

	As at August 3, 2007
Common shares	
- Common shares outstanding	94,256,230
Stock options	
- Average exercise price CDN\$5.38. Approximately 70% vested.	6,556,500
Convertible debentures	
- Face value CDN\$1.47 million. Convertible into common shares at a rate of 188.6792 common shares for each CDN\$1,000 principal amount of debentures.	277,547

Outlook

The Company had planned gold production of 30,000 ounces in the second quarter of 2007. Actual gold production was 28,640 ounces, only 5% lower though mining operations were curtailed for a ten-day period.

The Company made significant progress in the second quarter of 2007 by reducing the crush size to the optimal size of 80% passing 3/8th of an inch. However, crusher throughput was significantly below budget. The new crusher has been commissioned and the Company anticipates that planned crusher throughput rates of 15,000 tonnes per day will be achievable in the third quarter of 2007 provided the new crusher operates as designed.

Gold production in the month of July 2007 was significantly below forecast. Rainfall at the Mine of over 500 millimeters in the month of July was a record compared to the 40-year average July rainfall of 203 millimeters. Lower crusher throughput in July resulted from difficulties processing wet ore. In addition, the high rainfall levels impaired the Company's ability to implement optimum solution management practices.

Based on the level of gold production the Company achieved in the first seven months of 2007, and the delays experienced in commissioning the new crusher, it is not likely that the Company will be able to attain its forecast gold production of 150,000 ounces in 2007. Gold production in the third and fourth quarters of 2007 is dependent on the Company's ability to continue to control crusher discharge size, to reach targeted crusher throughput rates and to achieve optimal gold recoveries.

The Company has received the preliminary results of a milling trade-off study that was completed in the second quarter of 2007 indicating potential gold recoveries of up to 95% from Escondida ore under various milling options. Further metallurgical testing on high-grade portions of the Estrella deposit is ongoing to determine whether high-grade Estrella ore could be processed through a milling circuit in order to achieve significantly higher gold recoveries compared to heap leaching. In July 2007, the Company engaged an international engineering consulting firm to conduct an independent feasibility study on the milling option.

Exploration activities in the last half of 2007 will focus on completing surface drilling at Gap and underground development to facilitate core drilling and sampling. Additional in-fill and step-out drilling is planned at the Puerto del Aire zone, located to the immediate northeast of

the Estrella Pit, with the intention of expanding resources. Phase 1 and step-out drilling will be conducted at El Halcon, La Yaqui and Cerro Pelon.

The Company plans to release a resource estimate on the El Victor deposit in the third quarter of 2007, followed by a reserve estimate. A resource estimate for Puerto del Aire is planned for the fourth quarter of 2007.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the consolidated financial statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process. For a discussion of the Company's critical accounting estimates, refer to the December 31, 2006 and 2005 MD&A available at www.sedar.com.

Risk Factors and Uncertainties

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

The nature of risks and uncertainties are discussed more fully in the 2006 Annual Information Form filed by the Company available at www.sedar.com.

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.