

**ALAMOS GOLD INC.**

June 30, 2010  
(stated in thousands of United States dollars)

**INDEX**

Unaudited Interim Consolidated Financial Statements

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**ALAMOS GOLD INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited - stated in thousands of United States dollars)

	Note Ref.	June 30, 2010	December 31, 2009
<b>A S S E T S</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$145,599	\$160,682
Short-term investments		30,063	26,200
Amounts receivable		4,195	2,369
Advances and prepaid expenses		4,881	1,058
Inventory	5	22,362	20,026
		207,100	210,335
Mineral property, plant and equipment	6	268,145	149,947
		\$475,245	\$360,282
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$12,550	\$11,179
Income taxes payable		7,248	1,988
Current portion of property acquisition obligations		412	370
		20,210	13,537
Future income taxes		36,028	20,354
Employee future benefits		246	258
Asset retirement obligations		5,627	5,432
Property acquisition obligations		451	501
<b>Total Liabilities</b>		<b>\$62,562</b>	<b>\$40,082</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	\$319,007	\$251,752
Contributed surplus		12,697	10,114
Retained earnings		80,979	58,334
		412,683	320,200
		\$475,245	\$360,282
Commitments and Contingencies	10		

The accompanying notes form an integral part of these unaudited interim consolidated financial statements.

**ALAMOS GOLD INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(Unaudited - stated in thousands of United States dollars, except per share amounts)

	Note Ref.	For the three-month periods ended		For the six-month periods ended	
		June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>OPERATING REVENUES</b>					
Gold sales		\$47,494	\$41,978	\$94,145	\$77,498
<b>OPERATING EXPENSES</b>					
Mining and processing		11,229	12,487	22,504	24,740
Royalties		2,311	2,245	4,335	4,131
Amortization		5,182	5,694	10,864	10,789
Exploration		1,987	680	4,028	2,262
Corporate and administrative		2,265	1,361	4,351	2,874
Stock-based compensation		5,312	2,250	6,812	3,550
Accretion		115	83	227	169
Employee future benefits		27	67	54	129
		<u>28,428</u>	<u>24,867</u>	<u>53,175</u>	<u>48,644</u>
<b>EARNINGS FROM OPERATIONS</b>					
		<b>19,066</b>	<b>17,111</b>	<b>40,970</b>	<b>28,854</b>
Interest income		310	433	583	695
Foreign exchange gain		205	1,456	313	213
Other (loss) gain	6	(2)	(79)	(1,408)	627
<b>Earnings before income taxes for the period</b>					
		<b>19,579</b>	<b>18,921</b>	<b>40,458</b>	<b>30,389</b>
<b>Income taxes</b>					
- Current expense		(8,301)	(5,910)	(15,600)	(8,580)
- Future recovery (expense)		800	(42)	1,225	(42)
<b>Earnings for the period</b>					
		<b>\$12,078</b>	<b>\$12,969</b>	<b>\$26,083</b>	<b>\$21,767</b>
<b>Other comprehensive income</b>					
- Unrealized loss on securities		-	-	-	455
- Reclassification of realized losses on available-for-sale securities included in earnings		-	140	-	238
<b>Comprehensive income for the period</b>					
		<b>\$12,078</b>	<b>\$13,109</b>	<b>\$26,083</b>	<b>\$22,460</b>
<b>Earnings per share</b>					
- basic		<b>\$0.11</b>	<b>\$0.12</b>	<b>\$0.23</b>	<b>\$0.21</b>
- diluted		<b>\$0.10</b>	<b>\$0.12</b>	<b>\$0.22</b>	<b>\$0.20</b>
<b>Weighted average number of common shares outstanding</b>					
- basic		<u>114,965,000</u>	<u>107,604,000</u>	<u>114,448,000</u>	<u>104,603,000</u>
- diluted		<u>116,732,000</u>	<u>110,439,000</u>	<u>116,239,000</u>	<u>106,722,000</u>

The accompanying notes form an integral part of these unaudited interim consolidated financial statements.

**ALAMOS GOLD INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the six-month periods ended June 30, 2010 and 2009

(Unaudited - stated in thousands of United States dollars)

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

	Number of Shares outstanding	Share capital	Contributed surplus	Accumulated other comprehensive income/(loss)	Retained earnings	Total Shareholders' Equity
<b>Balance at December 31, 2009</b>	<b>109,850,108</b>	<b>\$251,752</b>	<b>\$10,114</b>	<b>\$-</b>	<b>\$58,334</b>	<b>\$320,200</b>
Stock-based compensation	-	-	6,812	-	-	6,812
Shares issued on exercise of options	1,929,000	16,625	(4,229)	-	-	12,396
Shares issued on acquisition	4,000,000	50,630	-	-	-	50,630
Dividends	-	-	-	-	(3,438)	(3,438)
Earnings	-	-	-	-	26,083	26,083
Other comprehensive income	-	-	-	-	-	-
<b>Balance at June 30, 2010</b>	<b>115,779,108</b>	<b>\$319,007</b>	<b>\$12,697</b>	<b>\$-</b>	<b>\$80,979</b>	<b>\$412,683</b>

The accompanying notes form an integral part of these unaudited interim consolidated financial statements.

**ALAMOS GOLD INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited - stated in thousands of United States dollars)

	For the three-month periods ended		For the six-month periods ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Cash provided by (used in):</b>				
<b>Operating Activities</b>				
Earnings	\$12,078	\$12,969	\$26,083	\$21,767
Adjustments for items not involving cash:				
Amortization	5,182	5,694	10,864	10,789
Accretion	115	83	227	169
Employee future benefits	27	67	54	129
Unrealized foreign exchange (gain) loss	(403)	213	(644)	305
Future income taxes	(800)	42	(1,225)	42
Realized gain on sale of securities	-	(90)	-	(81)
Write-down and loss on disposal of assets	-	-	1,298	-
Stock-based compensation	5,312	2,250	6,812	3,550
Changes in non-cash working capital:				
Fair value of forward contracts	(57)	178	169	48
Amounts receivable	(5,283)	(84)	(6,898)	(1,366)
Inventory	(605)	1,035	(2,234)	3,537
Advances and prepaid expenses	(2,701)	(1,753)	(2,967)	(2,568)
Accounts payable, taxes payable and accrued liabilities	8,027	(166)	12,886	1,186
	<b>20,892</b>	<b>20,438</b>	<b>44,425</b>	<b>37,507</b>
<b>Investing Activities</b>				
Proceeds on sale of securities	-	991	-	1,106
Acquisition of Turkish properties	-	-	(40,180)	-
Short-term investments (net)	(15,917)	(7,000)	(3,863)	(7,000)
Proceeds on sale of equipment	588	-	888	-
Mineral property, plant and equipment	(15,315)	(5,698)	(25,248)	(10,893)
	<b>(30,644)</b>	<b>(11,707)</b>	<b>(68,403)</b>	<b>(16,787)</b>
<b>Financing Activities</b>				
Common shares issued	9,649	5,063	12,396	68,682
Dividends paid	(3,438)	-	(3,438)	-
	<b>6,211</b>	<b>5,063</b>	<b>8,958</b>	<b>68,682</b>
Effect of exchange rates on cash and cash equivalents	(950)	994	(63)	610
Net (decrease) increase in cash and cash equivalents	(4,491)	14,788	(15,083)	90,012
Cash and cash equivalents - beginning of period	150,090	119,003	160,682	43,779
<b>Cash and cash equivalents - end of period</b>	<b>\$145,599</b>	<b>\$133,791</b>	<b>\$145,599</b>	<b>\$133,791</b>
<b>Supplemental information:</b>				
Interest paid	\$-	\$-	\$-	\$-
Income taxes paid	\$2,667	\$3,035	\$4,014	\$3,060

The accompanying notes form an integral part of these unaudited interim consolidated financial statements.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited - stated in United States dollars, unless otherwise stated)**

**1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION**

Alamos Gold Inc. and its wholly-owned subsidiaries (the "Company") are engaged in the acquisition, exploration, development and extraction of precious metals in Mexico and Turkey. The Company owns and operates the Mulatos mine (the "Mine") and holds the mineral rights to the Salamandra group of concessions in the State of Sonora, Mexico, which includes several known satellite gold occurrences. In addition, in January 2010, the Company acquired the Agi Dagi and Kirazli gold development projects in Turkey (note 3).

The interim consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They have been prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2009, except for the changes in accounting policies mentioned in note 2 below, and do not conform in all respects with disclosures required for annual financial statements. The interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended December 31, 2009.

**2. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION**

**a) Recent Accounting Pronouncements**

**International Financial Reporting Standards ("IFRS")**

In February 2008, the Canadian Accounting Standards Board confirmed that public companies will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The conversion to IFRS will require the Company to change certain accounting policies, systems, internal controls over financial reporting and disclosure controls.

**Business Combinations, Consolidations, Non-Controlling Interests**

In January 2009, the CICA issued Handbook Section 1582 Business Combinations, Section 1601 Consolidated Financial Statements, and Section 1502 Non-controlling Interests. These new standards are harmonized with IFRS. Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011. The Company has not yet quantified the impact of adoption on its consolidated financial statements.

**3. ACQUISITION OF TURKISH PROPERTIES**

On January 6, 2010, the Company completed the acquisition of the Agi Dagi and Kirazli gold projects (the "projects") through the purchase of certain Turkish subsidiaries held by Fronteer Development Group Inc. ("Fronteer") and Teck Resources Limited ("Teck").

In accordance with EIC-124, this transaction does not meet the definition of a business combination. Consequently, the transaction has been recorded as an acquisition of an asset.

The Company paid a total of US\$40 million cash and issued an aggregate of 4 million common shares to Teck (as to 60%) and Fronteer (as to 40%) in total consideration for the projects. In addition, a third party has a 2% Net Smelter Return Royalty on production from the Agi Dagi project. The total purchase price was \$91,334,000 including transaction costs of \$704,000.

The purchase price was preliminarily allocated to the assets acquired and the liabilities assumed based on the fair value of the total consideration at the closing date of acquisition. All financial assets acquired and financial liabilities assumed were recorded at fair value. The fair value of the net assets acquired was in excess of the consideration paid and was therefore allocated to the mineral properties, plant and equipment on a pro rata basis.

<b>Assets acquired and liabilities assumed</b>	(\$000)
Current assets	260
Mineral property, plant and equipment	108,774
Future tax liability	<u>(17,700)</u>
	<b><u>\$91,334</u></b>
<b>Consideration paid</b>	(\$000)
Cash	40,000
Issuance of shares	50,630
Transaction costs	<u>704</u>
	<b><u>\$91,334</u></b>

#### 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(\$000)	(\$000)
Held for trading <sup>(1)</sup>	175,662	186,882
Loans and receivables <sup>(2)</sup>	4,195	2,369
Derivative contracts designated as held-for-trading <sup>(3)</sup>	(169)	-
Other financial liabilities <sup>(4)</sup>	<u>(20,492)</u>	<u>(14,038)</u>

<sup>(1)</sup> Includes cash of \$42.8 million (December 31, 2009 - \$101 million), cash equivalents of \$102.8 million (December 31, 2009 - \$59.7 million) and short-term investments of \$30.1 million (December 31, 2009 - \$26.2 million)

<sup>(2)</sup> Includes amounts receivable.

- (3) Includes the Company's foreign currency forward and option contracts and gold option contracts which, for accounting purposes, are not considered to be effective hedges. These are classified within accounts payable and accrued liabilities in the consolidated balance sheet.
- (4) Includes accounts payable and accrued liabilities, income taxes payable, dividend payable, and property acquisition obligations.

At June 30, 2010, the Company had outstanding USD \$7 million deposits convertible to a fixed amount of Mexican pesos ("MXN") and \$2 million Canadian dollars ("CAD") deposits convertible to a fixed amount of United States dollars ("USD"), at the discretion of a counterparty. The mark-to-market loss associated with these deposits at June 30, 2010 was \$159,000. The Company also had outstanding contracts to deliver up to \$2 million CAD in exchange for a fixed amount of USD and a contract to deliver \$1 million USD in exchange for a fixed amount of MXN, at the discretion of a counterparty. In addition, the Company had an outstanding contract to deliver up to 1,000 ounces of gold at a fixed price. The mark-to-market loss associated with these contracts at June 30, 2010 was \$10,000.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of the fair value of financial assets and liabilities.

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2. Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has determined that all financial instruments outstanding at June 30, 2010 fall within level 2 of the fair value hierarchy.

## 5. INVENTORY

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(\$000)	(\$000)
Precious metals dore and refined precious metals	2,956	3,565
In-process precious metals	9,292	7,191
Parts and supplies	10,114	9,270
	<u>\$22,362</u>	<u>\$20,026</u>

The amount of in-process inventory charged to operations as mining and processing costs during the three and six-month period ended June 30, 2010 was \$11,603,000 and \$22,542,000 (three and six-month period ended June 30, 2009 - \$12,368,000 and \$24,118,000). The amount of inventory charged to operations as amortization in the three and six-month period ended June 30, 2010 was \$3,415,000 and \$7,155,000 (three and six-month period ended June 30, 2009 - \$3,908,000 and \$7,309,000).

## 6. MINERAL PROPERTY, PLANT AND EQUIPMENT

	June 30, 2010		December 31, 2009
	Cost	Accumulated Amortization	Net Book Value
	(\$000)	(\$000)	(\$000)
Mineral property and mine development	211,529	(22,400)	189,129
Mining plant and equipment	129,587	(51,101)	78,486
Office and computer equipment	1,271	(741)	530
	<u>\$342,387</u>	<u>(\$74,242)</u>	<u>\$268,145</u>
			<u>\$149,947</u>

The majority of the Company's property, plant and equipment is amortized on a units-of-production basis over the estimated mine life. Certain mining and office equipment is amortized on a straight line basis over periods ranging from two to five years. Escondida development, Mulatos relocation and construction-in-progress costs totaled \$36.0 million at June 30, 2010 (December 31, 2009: \$17.4 million) and Turkish properties totaling \$112.0 million (December 31, 2010: nil) are not subject to amortization until such time as the related assets are used in operations.

During the six-month period ending June 30, 2010, the Company sold mining equipment with a net book value of \$3.2 million to a contractor for proceeds of \$2.3 million, of which \$0.9 million has been collected at June 30, 2010. In addition, for the six-months ended June 30, 2010, the Company wrote-down \$0.4 million of property, plant and equipment as the equipment was permanently removed from service. The total charge of \$1.3 million for the loss on sale and the write-down is classified as other loss in the Statement of Operations.

## 7. SHARE CAPITAL

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

	Number of Shares	Amount
		(\$000)
Outstanding at December 31, 2009	109,850,108	251,752
Acquisition of Turkish properties (note 3)	4,000,000	50,630
Exercise of stock options	1,929,000	12,396
Transfer of contributed surplus to share capital for stock options exercised	-	4,229
Outstanding at June 30, 2010	<u>115,779,108</u>	<u>319,007</u>

b) Stock options

The following is a reconciliation of the changes in the number of stock options outstanding for the period ended June 30, 2010.

	Number	Weighted average exercise price (\$CDN)
Outstanding at December 31, 2009	5,511,800	7.82
Granted	3,906,000	14.64
Exercised	(1,929,000)	6.66
Forfeited	(77,200)	10.87
Outstanding at June 30, 2010	7,411,600	\$11.70

During the six-months ended June 30, 2010, the Company granted a total of 3,906,000 incentive stock options to purchase common shares in the capital of the Company at exercise prices ranging from CDN\$13.04 to CDN\$14.94 per share. In the six-months ended June 30, 2009, the Company granted 2,300,000 incentive stock options at exercise prices ranging from CDN\$7.37 to CDN\$9.80 per share.

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

For options granted in the six-month periods ended	June 30, 2010	June 30, 2009
Risk-free rate	1.70%-3.02%	1.18%-1.39%
Expected dividend yield	Nil-0.43%	Nil
Expected stock price volatility	56%-68%	59%-63%
Expected option life, based on terms of the grants (months)	27-40	27-40
Weighted average per share fair value of options granted	\$6.02	\$3.16

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

As at June 30, 2010, 3,270,000 stock options were exercisable. The remaining 4,141,600 outstanding stock options vest over the following two years.

Stock options outstanding and exercisable as at June 30, 2010:

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)
\$6.01 - \$8.00	1,502,000	7.08	2.03	1,256,000	6.96
\$8.01 - \$10.00	1,968,000	9.49	3.00	1,290,000	9.42
\$10.01 - \$12.00	100,000	10.64	3.36	40,000	10.64
\$12.01 - \$14.00	320,000	13.19	3.85	40,000	13.04
\$14.01 - \$15.00	3,521,600	14.79	4.46	644,000	14.80
	<b>7,411,600</b>	<b>\$11.70</b>	<b>3.54</b>	<b>3,270,000</b>	<b>\$9.60</b>

## 8. SEGMENTED REPORTING

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

	June 30, 2010	December 31, 2009
	(\$000)	(\$000)
Assets, by geographic segment		
- Mexico	300,328	272,058
- Canada	62,197	88,224
- Turkey	112,720	-
	<b>\$475,245</b>	<b>\$360,282</b>

### Three-months ended

	June 30, 2010				June 30, 2009			
	Mexico (\$000)	Turkey (\$000)	Canada (\$000)	Total (\$000)	Mexico (\$000)	Turkey (\$000)	Canada (\$000)	Total (\$000)
Revenues	47,494	-	-	47,494	41,978	-	-	41,978
Earnings (loss)	19,698	461	(8,081)	12,078	16,165	-	(3,196)	12,969

## Six-months ended

	June 30, 2010				June 30, 2009			
	Mexico (\$000)	Turkey (\$000)	Canada (\$000)	Total (\$000)	Mexico (\$000)	Turkey (\$000)	Canada (\$000)	Total (\$000)
Revenues	94,145	-	-	94,145	77,498	-	-	77,498
Earnings (loss)	36,156	883	(10,956)	26,083	26,832	-	(5,065)	21,767

## 9. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its shareholders equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders. At June 30, 2010, total managed capital was \$412.7 million (December 31, 2009 - \$320.2 million).

The Company's capital structure reflects the requirements of a company focused on sustaining strong cash flows from its current mining operations and financing both internal and external growth opportunities and development projects. The Company faces lengthy development lead times as well as risks associated with increasing capital costs and project completion timing due to the availability of resources, permits and other factors beyond the Company's control. The Company's operations are also significantly affected by the volatility of the market price of gold.

The Company continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, pay dividends, sell assets or enter into new debt arrangements. During the second quarter of 2010, the Company paid an inaugural semi-annual dividend of three cents per share. The Company will continue to re-evaluate its dividend policy on an ongoing basis.

There were no changes in the Company's approach to managing capital during the period.

## 10. COMMITMENTS AND CONTINGENCIES

### a) Escondida Development

During the third quarter of 2009, the Company signed a contract with an international mining contractor to pre-strip waste overburden lying above the Escondida zone. Work commenced in the third quarter of 2009 and is expected to be completed over approximately a two-year period, following which the Company will begin mining the underlying deposit. The total contract value is approximately \$40,000,000 and is conditional on the contractor achieving certain preset performance conditions. As at June 30, 2010, the Company has incurred approximately \$13,970,000 in project to date expenditures relating to this contract.

### b) Royalty

Production from certain concessions within the Salamandra district, including the Mine, is subject to a sliding scale production royalty. At current gold prices above \$400 per ounce, the royalty is

calculated at a rate of 5% of the value of gold and silver production, less certain deductible refining and transportation costs. The royalty is calculated based on the daily average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, production to a maximum of two million ounces of gold is subject to royalty. As at June 30, 2010, the royalty was paid or accrued on approximately 583,000 ounces of applicable gold production. Royalty expense in the three-month and six-month periods ended June 30, 2010 was \$2,311,000 and \$4,335,000 (three months and six months ended June 30, 2009: \$2,245,000 and \$4,131,000).

In addition, a third party has a 2% Net Smelter Return Royalty on production from the Company's Agi Dagi project. The Company has not recorded an accrual for this royalty at June 30, 2010 as the project is not in production.

### **c) Mulatos Town Relocation**

The Company commenced the planned relocation of the town of Mulatos in 2007. Relocation contracts have been signed with in excess of half of the families residing in Mulatos at the start of the relocation program. Property owners and possessors are being offered a comprehensive benefits package including compensation for their property at a premium to independent third-party valuations and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. Since the start of the relocation effort in 2007, the Company has invested approximately \$6,051,000 in property acquisition, relocation benefits, legal and related costs. In addition, the Company has recognized a liability of \$863,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at June 30, 2010. The discounted value of the liability was capitalized to mineral property, plant and equipment.

During the second quarter of 2008, the Company entered into a land purchase agreement with certain landowners. Pursuant to the land purchase agreement, the Company made a payment of \$1,250,000 in order to secure temporary occupation rights to specified land. An additional payment of \$1,250,000 is payable once the land has been vacated and is transferred to the Company, which has not been accrued as at June 30, 2010. The probability and timing of this additional payment is currently unknown to the Company.

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

### **d) Legal Settlement**

On June 28, 2010, the Company entered into a settlement agreement with Mala Noche Resources Corp. ("Mala Noche") relating to Mala Noche's proposed acquisition of the San Dimas mine. In consideration for relinquishing any claim by the Company to the San Dimas mine, Mala Noche agreed to pay the Company \$1.0 million cash and issue 2 million units (with each unit consisting of one post-consolidation common share and 0.4 of one warrant) relating to the financing which Mala Noche raised in July 2010. The settlement is conditional on Mala Noche completing the acquisition of the San Dimas mine, and receipt of TSX-Venture Exchange acceptance with respect to the issuance of the post-consolidation shares. The acquisition by Mala Noche was not completed at June 30, 2010. The Company will record the gain arising from the settlement agreement on closing of the acquisition of the San Dimas mine by Mala Noche.

## **11. RECLASSIFICATION**

The comparative financial statements have been reclassified to conform to the presentation of the current year financial statements.