ALAMOS GOLD INC.

March 31, 2008
(Unaudited - stated in thousands of United States dollars)

INDEX

Notice to reader

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NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The interim consolidated financial statements of Alamos Gold Inc. ("the Company") including the accompanying consolidated balance sheets as at March 31, 2008 and December 31, 2007 and the consolidated statements of operations and comprehensive income, deficit and cash flows for the three-month periods ended March 31, 2008 and 2007 are the responsibility of the Company's management. The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles for interim financial statements.

ALAMOS GOLD INC.
CONSOLIDATED BALANCE SHEETS

(Unaudited - stated in thousands of United States dollars)

	Note Ref.	March 31, 2008	December 31, 2007
A S S E T S			
Current Assets			
Cash and cash equivalents		$18,170	$7,757
Amounts receivable	4	4,724	3,040
Advances and prepaid expenses		1,543	1,520
Available-for-sale securities	5	1,108	1,195
Inventory	6	35,040	36,222
		60,585	49,734
Mineral property, plant and equipment	7	126,862	126,095
		$187,447	$175,829
L I A B I L I T I E S			
Current Liabilities			
Accounts payable and accrued liabilities		$7,764	$7,907
Income taxes payable	16	4,320	-
Current portion of capital lease obligations	9	2,125	2,072
Current portion of property acquisition obligations	12	518	562
Convertible debenture	10	1,266	1,297
		15,993	11,838
Capital lease obligations	9	5,921	6,503
Future income taxes	16	11,625	11,445
Employee future benefits	8	581	555
Asset retirement obligations	11	3,410	3,460
Property acquisition obligations	12	746	891
Total Liabilities		$38,276	$34,692
S H A R E H O L D E R S' E Q U I T Y			
Share capital	13	$162,736	$161,042
Convertible debenture	10	293	293
Contributed surplus	13	7,446	6,810
Deficit		(21,304)	(27,008)
		149,171	141,137
		$187,447	$175,829

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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

	For the three-month period ended	
	March 31, 2008	**March 31, 2007**
OPERATING REVENUES		
Gold sales	$31,030	$16,958
OPERATING EXPENSES		
Mining and processing	12,682	9,019
Royalties	1,654	892
Amortization	4,611	2,455
Exploration	564	593
Corporate and administrative	1,028	872
Stock-based compensation	970	438
Accretion expense	82	44
Employee future benefits	16	87
	21,607	14,400
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING	**9,423**	**2,558**
Interest income	48	64
Interest expense	(188)	(291)
Accretion of convertible debenture discount	(19)	(15)
Foreign exchange loss	(174)	(176)
Other gain (loss)	64	(117)
Earnings before income taxes for the period	**9,154**	**2,023**
Income taxes		
- Current	(3,650)	(134)
- Future	200	(700)
Earnings and comprehensive income for the period	**$5,704**	**$1,189**
Earnings per share for the period – basic and diluted	**$0.06**	**$0.01**
Weighted average number of common shares outstanding		
- basic	94,739,000	93,726,000
- diluted	96,731,000	96,523,000

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF DEFICIT

(Unaudited - stated in thousands of United States dollars)

	For the three-month periods ended	
	March 31, 2008	**March 31, 2007**
Deficit – beginning of period	**($27,008)**	**($27,617)**
Earnings for the period	5,704	1,189
Deficit - end of period	**($21,304)**	**($26,428)**

See notes to interim consolidated financial statements

ALAMOS GOLD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - stated in thousands of United States dollars)

	For the three-month periods ended	
	March 31, 2008	**March 31, 2007**
Cash provided by:		
Operating Activities		
Earnings for the period	$5,704	$1,189
Adjustments for items not involving cash:		
Amortization	4,611	2,455
Accretion expense	101	59
Employee future benefits	26	87
Unrealized foreign exchange loss	176	12
Future income taxes	(200)	700
Realized gain on sale of securities	(12)	-
Stock-based compensation	970	438
Changes in non-cash working capital:		
Fair value of forward contracts	16	119
Amounts receivable	(1,685)	(798)
Inventory	955	(903)
Prepaid expenses	(23)	229
Accounts payable, taxes payable and accrued liabilities	4,162	(170)
	14,801	**3,417**
Investing Activities		
Proceeds from sale of securities	52	-
Mineral property, plant and equipment	(5,271)	(2,961)
	(5,219)	**(2,961)**
Financing Activities		
Common shares issued	1,360	161
Capital lease repayments	(529)	(270)
Restricted cash	-	46
	831	**(63)**
Net increase in cash and cash equivalents	10,413	393
Cash and cash equivalents - beginning of period	7,757	4,878
Cash and cash equivalents - end of period	**$18,170**	**$5,271**
Supplemental information:		
Interest paid	$228	$219

See notes to interim consolidated financial statements

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 AND BASIS OF PRESENTATION

These interim financial statements have been compiled in United States dollars in accordance with accounting principles generally accepted in Canada for interim reporting using the same accounting policies and measurement criteria as those utilized in the preparation of the Company's audited consolidated financial statements for the years ended December 31, 2007 and 2006, except for the changes discussed in Note 3. These interim financial statements do not conform in all respects with disclosures required for annual financial statements and should be read in conjunction with the annual consolidated financial statements and related notes thereto.

3. CHANGES IN ACCOUNTING POLICIES AND PRESENTATION

a) Capital Disclosures

Effective January 1, 2008, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures. 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 disclosures required by adoption of this section are presented in Note 17.

b) Financial Instruments – Disclosure and Presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments – Disclosure ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863"). 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 disclosures required by adoption of these sections are presented in Note 5.

c) Inventories

Effective January 1, 2008, the Company adopted CICA Handbook Section 3031, Inventories. 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 disclosures required by adoption of this section are presented in Note 6.

4. AMOUNTS RECEIVABLE

	March 31, 2008	December 31, 2007
	($000)	($000)
Accounts receivable	115	107
Gold sales receivable	430	-
Mexican value-added tax	4,179	2,933
	$4,724	$3,040

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Categories of financial assets and liabilities

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

	March 31, 2008	December 31, 2007
	($000)	($000)
Held for trading [(1)]	18,170	7,757
Available-for-sale [(2)]	1,108	1,195
Loans and receivables [(3)]	4,724	3,040
Other financial liabilities [(4)]	10,278	10,657
Gold forward contracts designated as held for trading [(5)]	16	-

(1) Includes cash and cash equivalents.
(2) Includes the Company's investment in the common shares of Castle Gold Corporation ("Castle", formerly Morgain Minerals Inc.).
(3) Includes amounts receivable.
(4) Includes accounts payable and accrued liabilities, property acquisition obligations and the debt component of the convertible debenture liability.
(5) Includes the Company's gold forward sales contracts which are not considered to be effective hedges for accounting purposes. Classified with accounts payable and accrued liabilities in the consolidated balance sheet.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company's financial instruments are not materially different from their carrying values.

In 2006, the Company sold its La Fortuna property to Castle 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. In the three-month period ended March 31, 2008, the Company sold

80,000 common shares of Castle. At March 31, 2008, the Company held 2,315,500 shares of Castle with a fair value of $1,108,000 as determined with reference to published price quotations.

Derivative Financial Instruments

The Company may utilize financial instruments to manage the risks associated with fluctuations in the market price of gold and foreign exchange rates. At March 31, 2008, the Company had contracts to sell approximately 2,000 ounces of gold (nil at December 31, 2007) at prices below the period-end market price resulting in a mark-to-market loss of approximately $16,000. The Company did not have any foreign exchange forward contracts outstanding at March 31, 2008 or at December 31, 2007.

Risk Management

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

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

Commodity Price Risk

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

Foreign Exchange Risk

Certain of the Company's financial assets and liabilities are denominated in Canadian dollars or Mexican pesos. In addition, the Company incurs certain operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company is exposed to financial gain or loss as a result of foreign exchange movements against the United States dollar, and the Company's operating costs are affected by changes in foreign exchange rates in those currencies.

The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars. Corporate and administrative costs associated with the Company's head office in Toronto are denominated in Canadian dollars. A 10% increase in the value of the Canadian dollar compared to the United States dollar could increase the Company's reported corporate and administrative costs by approximately $0.3 million annually.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos, and significant 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. A 10% increase in the value of Mexican peso compared to the United States dollar could increase the Company's reported mining and processing costs by approximately $2.5 million annually.

Interest rate risk

The Company's interest rate risk is currently minimal as the interest rate charged on capital lease obligations is established at LIBOR + 4.1% at the inception of the lease, and the interest rate on the Company's convertible debenture liability was established on issuance at 5.5%.

The Company is exposed to fluctuations in LIBOR interest rates on amounts outstanding under its bank loan. The bank loan balance outstanding at March 31, 2008 and December 31, 2007 was $nil.

As a result of the Company's minimal liability to fluctuations in market interest rates, the Company has elected not to enter into interest rate swaps or other active interest rate management programs at this time.

Credit risk

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

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

The carrying amount of amounts receivable are reduced through the use of an allowance account (when applicable) and the amount of any allowance is recognized as a loss and included in operating expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for amounts receivable. The majority of the Company's receivable balances consist of Mexican value-added tax recoverable claims. The Company is exposed to credit risk in the case that the tax department of the Mexican government is unable to pay the amounts receivable. As at March 31, 2008, the Company was owed $4,179,000 from the Mexican government, of which approximately $1,500,000 related to the fourth quarter of 2007. Subsequent to period-end, the Company recovered all non-current amounts owed related to periods prior to February 2008.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available cash reserves and credit in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash

equivalents and through the availability of the Company's undrawn $15 million line of credit. As at March 31, 2008 the Company had cash and cash equivalents of $18,170,000.

The Company's requirements for capital in the foreseeable future may include funds for the potential construction of a mill to process ore from Escondida. The total cost and planned timing of this project is not currently determinable and it is not currently known whether the Company will require external financing to complete this or other similar development and/or construction projects.

6. INVENTORY

	March 31, 2008	December 31, 2007
	($000)	($000)
Precious metals dore and refined precious metals	4,384	4,760
In-process precious metals	21,821	22,693
Parts and supplies	8,835	8,769
	$35,040	$36,222

The carrying value of inventory is calculated using weighted average cost. The amount of inventory charged to operations as mining and processing costs during the three-month periods ended March 31, 2008 and 2007 was $12,596,000 and $9,096,000. The amount of inventory charged to operations as amortization in the three-month periods ended March 31, 2008 and 2007 was $3,268,000 and $2,366,000 respectively.

7. MINERAL PROPERTY, PLANT AND EQUIPMENT

In 2003, the Company acquired a 100% interest in certain properties within the Salamandra group of concessions 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.

		March 31, 2008		December 31, 2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Mineral property and mine development	60,588	(9,271)	51,317	50,437
Mining plant and equipment	82,920	(18,464)	64,456	64,086
Assets under capital lease	13,589	(2,711)	10,878	11,336
Office and computer equipment	484	(273)	211	236
	$157,581	$(30,719)	$126,862	$126,095

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

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

9. CAPITAL LEASE OBLIGATIONS

The Company enters into leasing arrangements with financing companies for mining equipment. As at March 31, 2008, the Company had entered into twelve leases. 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 three-month period ended March 31, 2008 was $168,000 (three-month period ended March 31, 2007 - $197,000). The Company has the right to repay the outstanding balance of the leases at any time.

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 2006, the Company announced an incentive conversion period to allow for early conversion at incentive conversion ratios. 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. Convertible debentures representing CDN$25,000 were converted during 2007. The face value of the outstanding convertible debentures at March 31, 2008 was CDN$1,471,000.

On March 24, 2008, in accordance with the terms of the trust indenture, the Company announced that it had issued a notice of redemption to debenture holders. The Company would redeem the principal amount of any outstanding debentures for cash on the redemption date of April 28, 2008. Subsequent to March 31, 2008 and prior to the redemption date of April 28, 2008, debentures representing CDN$1,371,000 were converted into common shares, resulting in the issuance of 258,677 common shares. The outstanding

principal amount of debentures of CDN$100,000 plus accrued interest at the redemption date was redeemed for cash.

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 March 31, 2008 was $nil.

On April 30, 2008, the Company requested cancellation of the bank line of credit in order to reduce the standby charges that are otherwise payable while the bank line of credit is undrawn. The Company is generating strong cash flows from operations and does not currently foresee the need to draw from the bank line of credit.

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:

	Three-month period ended March 31, 2008	**Year ended December 31, 2007**
	($000)	($000)
Obligations at start of year	3,460	2,640
Revisions in estimated cash flows and changes in assumptions	(115)	604
Liabilities incurred	9	33
Accretion of discounted cash flows	56	183
Obligations at end of year	$3,410	$3,460

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

	March 31, 2008	**December 31, 2007**
Estimated cost ($000)	5,388	5,374
End of mine life	2014	2014
Discount rate	6.48% - 8.33%	6.48% - 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. At March 31, 2008, the Company has applied a discount rate of approximately 7.00% 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, 2007	**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**
Exercise of stock options	466,500	1,360
Transfer of contributed surplus to share capital for exercised stock options	-	334
Outstanding at March 31, 2008	**94,982,731**	**$162,736**

b) Stock options outstanding and exercisable as at March 31, 2008:

	Outstanding			**Exercisable**	
Range of exercise prices ($CDN)	**Number of options**	**Weighted average exercise price ($CDN)**	**Weighted average remaining contractual life (years)**	**Number of options**	**Weighted average exercise price ($CDN)**
$1.01 - $2.00	280,000	$1.13	0.31	280,000	$1.13
$2.01 - $3.00	1,197,000	$2.42	0.92	1,197,000	$2.42
$3.01 - $4.00	935,000	$3.73	2.14	935,000	$3.73
$6.01 - $8.00	2,610,000	$7.15	3.45	1,068,200	$7.15
$8.01 - $9.00	1,011,500	$8.89	2.73	794,180	$8.89
	6,033,500	$5.69	2.48	4,274,380	$5.01

c) Summary of stock option activity:

	Number	Weighted average exercise price ($CDN)
Outstanding at January 1, 2007	**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**
Granted	-	-
Exercised	(466,500)	2.92
Forfeited	(54,500)	7.90
Outstanding at March 31, 2008	**6,033,500**	**$5.69**

d) Summary of contributed surplus activity:

	Amount
	($000)
Balance at January 1, 2007	**3,740**
Stock-based compensation	3,425
Transfer of contributed surplus to share capital for exercised stock options	(355)
Balance at December 31, 2007	**6,810**
Stock-based compensation	970
Transfer of contributed surplus to share capital for exercised stock options	(334)
Balance at March 31, 2008	**$7,446**

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.

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.

As at March 31, 2008, 4,274,380 stock options were exercisable. The remaining 1,759,120 stock options vest over the following two years.

There were no stock options granted during the three-month periods ended March 31, 2008 and 2007.

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.

	March 31, 2008	**December 31, 2007**
	($000)	($000)
Assets, by geographic segment		
- Mexico	185,091	173,890
- Canada	2,356	1,939
	$187,447	$175,829

Three-month periods ended	**March 31, 2008**			**March 31, 2007**		
	Mexico	Canada	Total	Mexico	Canada	Total
	($000)	($000)	($000)	($000)	($000)	($000)
Revenues	31,030	-	31,030	16,958	-	16,958
Earnings	7,673	(1,969)	5,704	2,689	(1,500)	1,189

16. INCOME TAXES

Effective January 1, 2008, the Company is subject to a new Single Rate Tax Law enacted by the Mexican government on September 28, 2007. Under the new Single Rate Tax Law, the Company's Mexican operating subsidiaries are subject to a tax equivalent to 17.5% (with lower transitional rates in 2008 of 16.5% and 2009 of 17%) of the Company's revenues less certain allowable deductions (as determined on a cash basis). The single rate tax is payable each year to the extent that it exceeds income tax otherwise payable pursuant to the pre-existing Mexican income tax laws. Any excess single rate tax paid cannot be credited against income taxes payable in future periods. In the three-month period ended March 31, 2008, the application of the new single rate tax did not impact the Company's current tax expense.

17. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as its shareholders equity. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders. As at March 31, 2008, total managed capital was $149,171,000 (December 31, 2007 - $141,137,000).

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

Company's control. The Company's operations are also significantly affected by the volatility of the market price of gold.

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

The Company manages its capital structure by performing the following:

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

18. 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 and to-date in 2008, the Company has capitalized approximately $3,290,000 in property acquisition, relocation benefits, legal and related costs. The Company has also recognized a liability of $1,264,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at March 31, 2008. The discounted value of the liability was capitalized to mineral property, plant and equipment. 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.

In 2005, the Company acquired certain used mobile mining equipment from a United States construction company. In 2006, a court judgment was issued in the United States allowing a finance company to repossess the equipment from the construction company which had failed to make required loan payments on the equipment. In April 2008, the Company was notified that the finance company would seek compensation in the amount of $840,000 from the Company for the unpaid balance. No court judgment has been issued in Mexico or elsewhere against the Company. The Company is currently obtaining legal advice from counsel in the United States and Mexico, and cannot currently determine the outcome of this dispute.

19. RECLASSIFICATION

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

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

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

Note to U.S. Investors

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

Overview

Alamos Gold Inc. is a publicly traded company on the Toronto Stock Exchange (TSX: AGI). The Company owns 100% of the 28,500-hectare Salamandra group of concessions located

in the state of Sonora in northwest Mexico. The Salamandra group of concessions includes the Mulatos mine (the "Mine") and more than nine other prospective exploration targets throughout the district. The Mine produces gold in dore bars for shipment to a refinery. Gold may be sold in refined form or as dore. The Company achieved commercial production at the Mine on April 1, 2006.

Proven and probable reserves in the Estrella Pit as at December 31, 2007 were 24.3 million tonnes grading 1.68 grams per tonne of gold ("g/t Au") or approximately 1.3 million contained ounces of gold.

The Salamandra group of concessions contains both advanced and grassroots exploration prospects. There are several advanced exploration projects near the Estrella Pit that have the potential to continue to add resources and reserve ounces to the global Mulatos deposit, including both mineralization extensions and satellite deposits.

First Quarter 2008 Highlights

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

the Company's processing cost structure. Cost increases associated with cement agglomeration could be significant, but will be partially offset by lower lime costs resulting from reduced lime consumption. The Company expects that cement agglomeration would result in higher gold recoveries. Overall, the Company expects processing cost per tonne of ore to increase through the remainder of 2008.

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

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

The Company's reported cash operating costs per ounce are significantly affected by gold recoveries. Bottle roll recoveries on blast hole ore in the first quarter of 2008 averaged 65%. These recovery results are supported by column testing. Column testing of the February 2008 composite crushed ore samples show recovery of 44% after 26 days. January 2008 column tests show recoveries in excess of 70% after 53 days. Recoveries indicated by metallurgical testing in the laboratory have not been achieved from the leach pad due to various factors, including crush size and leach pad percolation. The Company has resolved the issue of crush size by introducing a new crusher into the production process, and is addressing percolation issues through the new conveying and stacking system and future plans for cement agglomeration.

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

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

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

Cautionary Non-GAAP Statements

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

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

Financial Highlights

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

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

(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.

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

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

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

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

Gold Sales

Details of gold sales are presented below:

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

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

The Company realized an average gold price of $897 per ounce in the first quarter of 2008, compared to an average London PM Fix spot gold price of $925 during the period. The Company generally contracts for the sale of gold twice monthly, but may fix the price at various points in a quarter with the intent of achieving the average London PM Fix spot gold price for the quarter. Periodically, the Company may fix the selling price by entering into gold contracts to lock in a favorable price or provide protection from downside risk. In a steadily increasing gold price environment, the Company's realized gold price per ounce will generally be lower than the average London PM Fix spot gold price.

Assessment of Gold Market

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

Operating Expenses and Operating Margins

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

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

(1) Reported gold production is subject to final refinery settlement.
(2) "Cash operating costs" is a non-GAAP measure which includes all direct mining costs, refining and transportation costs and by-product credits. "Cash operating costs" is equivalent to mining and processing costs as reported in the Company's financial statements.
(3) Production royalties are included as of April 1, 2006 at 5% of net precious metals revenues (as determined in accordance with the royalty agreement).
(4) "Total cash costs" is a non-GAAP measure which includes all "cash operating costs" and royalties and production taxes. "Total cash costs" is equivalent to mining and processing costs and royalties as reported in the Company's financial statements.
(5) "Total production costs" is a non-GAAP measure which includes all "total cash costs", amortization, and accretion of asset retirement obligations. "Total production costs" is equivalent to mining and processing costs, royalties, amortization and accretion of asset retirement obligations as reported in the Company's financial statements.
(6) "Operating cash margin per ounce" is a non-GAAP measure which is calculated as the difference between the Company's gold sales and mining and processing and royalty expenses as reported in the Company's financial statements.

Production from the Mine is subject to a sliding scale production royalty. At current gold prices above $400, the royalty is set at a rate of 5% of the value of gold and silver, less certain allowed refining and transportation costs. The royalty is calculated based on the daily average London PM Fix gold market prices, not actual prices realized by the Company. With the achievement of commercial production on April 1, 2006, the Mine's production to a maximum of two million ounces of gold is subject to royalty. As at March 31, 2008, the royalty was paid or accrued on approximately 214,000 ounces of applicable gold production. Royalty expense for the first quarter of 2008 was $1,654,000 compared to $892,000 in the same period of 2007 due to higher production applicable to royalty and a 42% increase in the average market price of gold.

Exploration

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

The Company's accounting policy for exploration costs requires that exploration spending that does not meet the criteria for mine development is expensed as incurred. In addition to the exploration expense recognized in the first quarter of 2008 of $564,000, approximately $616,000 of costs related to drilling the Puerto del Aire zone immediately adjacent to the existing Estrella Pit were capitalized to mine development.

Corporate and Administrative

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

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

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

Stock-based Compensation

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

In order to promote employee retention, the Company implemented vesting provisions for all stock option grants effective December 2005. Under the vesting provisions, 20% of all stock options granted vest on the date of grant and 20% at each subsequent six-month period. The vesting provisions result in the market value of stock option grants being charged to expense in accordance with the vesting terms of the option. The higher stock-based compensation expense in the first quarter of 2008 is due to the amortization of the fair value of all of the 2,472,000 options granted in 2007. Stock-based compensation expense in the first quarter of 2007 excludes any cost related to the 2007 stock option grants as they were all granted subsequent to March 31, 2007.

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

Accretion of Asset Retirement Obligation

The asset retirement obligation on the Company's balance sheet of $3,410,000 at March 31, 2008 reflects the discounted value of the amount the Company expects to incur on closure of the Mine for reclamation and reforestation activities. The Company's estimate of the expected future costs associated with mine closure and reclamation was prepared internally by management. Accretion expense represents the increase in the liability due to the passage of time. Accretion of asset retirement obligation expense in the first quarter of 2008 was $56,000 compared to $44,000 in the first quarter of 2007. Changes in the Company's estimate of expected future cash outflows at the end of the life of the mine resulted in a decrease to the asset retirement obligation liability at period-end. Accretion expense in 2008 is expected to be approximately $225,000. The Company is awaiting an independent third-party report assessing the Company's mine closure plan. This report will be the first update since the feasibility study, and the Company intends to update its expected future cash outflows associated with mine closure to correspond to the work requirements presented in the revised closure plan.

Employee Future Benefits

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

Interest Income

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

Interest Expense

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

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

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

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

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

Accretion of Convertible Debenture Discount

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

Foreign Exchange Loss

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

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

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

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

Income Taxes

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

Since the Company uses the liability method of computing its income taxes, there are factors which may result in changes to the valuation of tax assets and liabilities. These factors include changes in foreign exchange rates and changes in future income tax rates that will affect the effective tax rate as they are not dependent on computed earnings before income tax or the statutory rate. In addition, the Company is subject to inflation gains on its net monetary liabilities in Mexico, which are not reported in earnings as calculated for accounting purposes, whether those liabilities are denominated in Mexican pesos or United States dollars. If these adjustments are significant in relation to earnings before income tax, the resulting effective tax rate may be materially different from the statutory rate.

Summary of Quarterly Results

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

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

Commercial production commenced in the second quarter of 2006; however, a loss was reported as significant charges related to the early conversion of the majority of the Company's convertible debenture liability were incurred. The $0.08 loss per share in the second quarter of 2006 includes a $5.9 million debt settlement charge to retained earnings in relation to conversion of the convertible debentures. The loss in the fourth quarter of 2006 was restated to reflect a $2.1 million increase to future income tax expense. The Company expects that the third quarter will continue to represent a seasonal low for gold production based on recent rainfall patterns which have the potential to impact operations. Higher realized gold prices and gold sales have resulted in record gold sales, earnings from operations and earnings in the first quarter of 2008.

Financial and Other Instruments

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

The Company's cash and cash equivalents may be invested in short-term liquid deposits or investments which provide a revised rate of interest upon maturity. At March 31, 2008 all reported cash and cash equivalents were held in bank deposit accounts.

In addition to United States dollar costs, the Company also incurs operating costs denominated in both the Canadian dollar and the Mexican peso. Accordingly, the Company's operating costs are affected by changes in foreign exchange rates in those currencies.

The Company has elected not to hedge its exposure to fluctuations in the Canadian dollar by buying fixed rate forward contracts in Canadian dollars. Corporate and administrative costs associated with the Company's head office in Toronto are denominated in Canadian dollars. A 10% increase in the value of the Canadian dollar against the United States dollar could

increase the Company's reported corporate and administrative costs by approximately $0.3 million annually.

The Company has exposure to monetary assets and liabilities denominated in Mexican pesos, and significant cash balances, outstanding amounts receivable, accounts payable or tax liabilities denominated in Mexican pesos could result in a foreign exchange gain or loss. The Company has elected not to hedge this exposure by buying fixed rate forward contracts in Mexican pesos at this time as the exchange rate for the Mexican peso has been relatively stable in recent years. However, if the Mexican peso strengthened significantly against the United States dollar, the Company's operating costs would be adversely affected. A 10% increase in the value of the Mexican peso compared to the United States dollar could increase the Company's reported mining and processing costs by approximately $2.5 million annually.

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

Investment in Mineral Property, Plant and Equipment

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

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

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

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

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

In the first quarter, the Company invested a total of $661,000 in conjunction with the planned relocation of the town of Mulatos, other land acquisitions and related legal costs. The relocaton of the town of Mulatos commenced in the third quarter of 2007. Relocation contracts have been signed with more than half of the families resident in Mulatos. Property owners and possessors are being offered a comprehensive package of benefits including compensation for their property and/or relocation benefits. In certain cases, relocation benefits include deferred monthly payments. The Company has recognized a liability of $1,264,000 representing the discounted value of expected future payments for relocation benefits to property owners and possessors that had signed contracts with the Company as at March 31, 2008. The discounted value of the liability was capitalized to mineral property, plant and equipment.

Exploration and Mine Development Activities

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

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

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

Liquidity and Capital Resources

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

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

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

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

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

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

Changes in Accounting Policy and Presentation

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

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

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

Recent Accounting Pronouncements

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

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

Internal Control over Financial Reporting

Management is responsible for the design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with accounting principles generally accepted in Canada. Based on a review of its internal control procedures at the end of the period covered by this MD&A, with the exception of the matter described below, management believes its internal controls and procedures are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner.

Changes to Internal Control over Financial Reporting

There have been no significant changes to the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting, other than changes made to remedy the internal control weakness identified in 2007 regarding accounting for future income taxes.

Disclosure Controls

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2008 and have concluded that these controls and procedures are effective in providing reasonable assurance that material information relating to the Company is made known to them by others within the Company.

Off-Balance Sheet Arrangements

The Company may enter into gold contracts which may, in certain circumstances, be classified as off-balance sheet arrangements. Due to the nature of the contracts entered into and in accordance with the Company's accounting policy, the mark-to-market value of these contracts is recorded on the balance sheet. At March 31, 2008, the Company had contracts to sell 2,000 ounces of gold in April at prices below the March 31, 2008 closing market price. Accordingly, a mark-to-market loss of $16,000 was recognized in other expense and classified within accounts payable and accrued liabilities on the Company's balance sheet.

Commitments Table

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

Payments due by period ($000)

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

[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. Based on the current gold price and rates of production, quarterly royalty expense is expected to continue to be in the range of $1.5 to $1.8 million per quarter.

The Company has signed relocation contracts with certain property owners and possessors in the town of Mulatos. The amount and timing of expected future relocation benefit and property acquisition payments to the residents of Mulatos who had signed contracts with the Company as at March 31, 2008 are presented in the table above. Although future relocation, property acquisition and legal costs may be material, the Company cannot currently determine the expected timing, outcome of negotiations or costs associated with the relocation of the remaining property owners and possessors and potential land acquisitions.

Outstanding Share Data

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

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

Outlook

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

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

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

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

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

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

Forward-Looking Statements

Except for historical information contained in this management's discussion and analysis, disclosure statements contained herein are forward-looking, as defined in the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially from those in such forward-looking statements.

This MD&A contains forward-looking statements concerning the Company's plans for its properties and other matters within the meaning of Section 21E of the Securities Exchange Act of the United States. Forward-looking statements include, but are not limited to, statements with respect to anticipated commencement dates of mining expansions, operations, projected quantities of future metal production, anticipated production rates and mine life, operating efficiencies, costs and expenditures and conversion of mineral resources to proven and probable reserves, and other information that is based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management.

Statements concerning proven and probable reserves and mineral resource estimates may also be deemed to constitute forward-looking statements to the extent that they involve estimates of the mineralization that will be encountered if the property is developed, and in the

case of mineral resources or mineral reserves, such statements reflect the conclusion based on certain assumptions that the mineral deposit can be economically exploited. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking statements." Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements.