ALAMOS GOLD INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(All amounts are expressed in United States dollars, unless otherwise stated)

This management's discussion and analysis ("MD&A") of the operating results and financial position of Alamos Gold Inc. and its subsidiaries ("the Company") is for the three and six-month periods ended June 30, 2008 compared with the three and six-month periods ended June 30, 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 August 5, 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 June 30, 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.

Second Quarter 2008 Highlights

During the three-month period ended June 30, 2008, the Company reported record quarterly gold sales, gold production, revenues, cash flows from operations and earnings. Specifically, the Company:

- Recognized record quarterly earnings of $6.2 million ($0.07 per share (basic)), an increase of 228% over earnings of $1.9 million ($0.02 per share) in the second quarter of 2007.
- Increased revenues 55% from $20.8 million in the second quarter of 2007 to a record $32.3 million in the second quarter of 2008.
- Generated record cash flows from operating activities of $15.2 million or $0.16 per share compared to $4.2 million or $0.04 per share in the second quarter of 2007.
- Produced a record 38,500 ounces at a cash operating cost of $361 per ounce of gold sold (total cash cost inclusive of royalties of $405 per ounce of gold sold).
- Announced the successful commissioning of the conveying and stacking system in April 2008.
- Retired its outstanding convertible debenture liability and repaid all outstanding capital lease obligations resulting in the Company being debt-free as at June 30, 2008.

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

- Announced that mining operations continued to exceed expectations in July 2008 with monthly gold production of over 11,500 ounces.
- Commenced a first phase planned 20-hole (3,000 meter) drill program at the Company's high-priority Cerro Pelon target.

Results of Operations

In the second quarter and throughout the first half of 2008, the Company has consistently increased gold sales and gold production, and has improved financial performance. This is the third consecutive quarter that the Company has reported improved financial and operating results.

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Continued operational improvements have 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 half of 2008.

Additional operational improvements were implemented or initiated during the second quarter of 2008. The conversion from truck-loading to conveying and stacking crushed ore on the leach pad was successfully completed in April 2008 and has already demonstrated improved leach pad dynamics and corresponding gold recoveries. A new lime-application process was implemented in conjunction with the conveying and stacking system and has reduced lime consumption and related processing costs. In addition, the Company implemented the first phase of the inter-lift liner plan, which is expected to both increase gold recoveries and improve the Company's ability to measure the level of gold recovery from specific areas of the leach pad. During the second quarter, the Company also implemented a number of procedures to improve its ability to optimize gold production during the third quarter rainy season.

Gold production in the second quarter of 2008 was 38,500 ounces, an increase of 37% over gold production of 28,200 in the second quarter of 2007. Gold sales in the second quarter of 2008 increased 15% over the comparable period of 2007 to 35,482 ounces. The table below outlines key quarterly production indicators during the second quarters of 2008 and 2007 and year-to-date:

Production summary	**Q2 2008**	**Q2 2007**	**YTD 2008**	**YTD 2007**
Ounces produced [1]	38,500	28,200	71,753	53,140
Ore mined (tonnes)	1,201,000	873,000	2,431,000	1,908,000
Waste mined (tonnes)	1,602,000	2,230,000	3,255,000	4,550,000
Total mined (tonnes)	2,803,000	3,103,000	5,686,000	6,458,000
Ore crushed (tonnes)	1,173,000	909,000	2,417,000	1,959,000
Ore mined per day (tonnes)	13,100	9,600	13,400	10,500
Ore crushed per day (tonnes)	12,800	10,000	13,300	10,800
Waste-to-ore ratio	1.33	2.55	1.34	2.39
Grade (g/t Au)	1.85	1.82	2.10	1.77

(1) Reported gold production for Q2 and YTD 2007 has been adjusted to reflect final refinery settlement. Reported gold production for Q2 and YTD 2008 is subject to final refinery settlement and may be adjusted.

The Company has achieved significant increases in ore mined and crushed during the second quarter and year-to-date in 2008 compared to the same periods 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 half of 2008, contributing to a 27% increase in ore mined and a 29% decrease in waste mined. 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 13,300 in the first six months of 2008 represented a 23% improvement over the comparable period of 2007.

The grade of ore crushed and stacked year-to-date in 2008 was 19% higher than in the prior year period. The reconciliation of mined blocks to the block model continues to reflect a positive grade and ounce variance. Since the start of mining activites in 2005, the project-to-date reconciliation is -1.7%, +7.6% and +5.8% for tonnes, grade and ounces respectively. The Company expects that mined grade for the balance of the year will approximate reserve grade of 1.6 g/t Au and the waste-to-ore ratio will be consistent with the 1.34 ratio in the first half of 2008.

Operational changes made in 2007 and to-date in 2008 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 second quarter and year-to-date in 2008 to the same periods of 2007:

Costs per tonne summary	**Q2 2008**	**Q2 2007**	**YTD 2008**	**YTD 2007**
Mining cost per tonne of material (ore and waste)	$1.67	$1.52	$1.58	$1.41
Waste-to-ore ratio	1.33	2.55	1.34	2.39
Mining cost per tonne of ore	$3.90	$5.40	$3.70	$4.78
Crushing/conveying cost per tonne of ore	$2.11	$2.84	$2.17	$2.51
Processing cost per tonne of ore	$2.39	$2.34	$2.30	$2.24
Mine administration cost per tonne of ore	$1.71	$1.56	$1.59	$1.32
Total cost per tonne of ore	$10.11	$12.14	$9.76	$10.85

Total cost per tonne of ore in the second quarter of 2008 was $10.11 or 17% lower than the $12.14 incurred in the same period of 2007. The lower total cost per tonne of ore in the second quarter of 2008 is attributable to a 28% decrease in the mining cost per tonne of ore and a 26% decrease in crushing cost per tonnne of ore, partially offset by a 10% increase in mine administration cost per tonne of ore. Mining cost per tonne of ore benefited from a 48% lower waste-to-ore ratio in the second quarter of 2008.

Mining costs per tonne of material was $1.67 in the second quarter, representing a 10% increase over the second quarter of 2007. Higher costs per tonne of material were the result of a 10% decrease in the total tonnes of material mined, and increases in drilling and blasting costs in the second quarter of 2008 compared to the same period of 2007.

Crushing and conveying cost per tonne of ore in the second quarter of 2008 was $2.11. This represented a 26% decrease compared to the prior year period and is primarily attributable to a 29% increase in the number of crushed tonnes and cost savings realized from using the new conveying and stacking system. 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 more than offset on a per tonne basis by operational efficiencies resulting in higher crusher throughput. Crusher throughput averaged 13,300 tonnes per day in the first half of 2008 compared to 10,800 in the same period of 2007.

The new conveying and stacking system has also contributed to lower crushing and conveying cost per tonne of ore as costs associated with truck-hauling and loading ore on the leach pad have been eliminated.

Processing cost per tonne of ore in the second quarter of 2008 was $2.39 compared to $2.34 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 has resulted in lower lime consumption and corresponding lower costs as a result of the more efficient mechanized lime application. Cost savings related to lower lime consumption are expected to be offset by the addition of cement costs to the Company's future processing cost structure. In July 2008, the Company began the cement agglomeration process, which the Company expects will contribute to higher gold recoveries.

Mine administration cost per tonne of ore in the three-months ended June 30, 2008 was $1.71 compared with $1.56 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 of $361 per ounce of gold sold in the second quarter of 2008 was consistent with the $358 reported in the second quarter of 2007, and below the $366 reported for the first quarter of 2008 despite the fact that the first quarter benefited from higher grades. The Company's cash operating costs have been steadily decreasing since the fourth quarter of 2007 from $469 in that period to $361 in the most recent quarter.

The Company's reported cash operating costs per ounce are significantly affected by gold recoveries. Bottle roll recoveries on blast hole ore in the second quarter of 2008 averaged 67%. These recovery results are supported by column testing. Column testing of the May 2008 composite crushed ore samples show recovery of 70% after 23 days. Recoveries indicated by metallurgical testing in the laboratory have not historically been achieved from the leach pad due to various factors, including crush size and leach pad percolation. The Company has addressed the issue of crush size by introducing a new crusher into the production process, and has dealt with percolation issues through the commissioning of the conveying and stacking system and cement agglomeration. As a result, the ratio of the number of ounces of gold produced divided by number of ounces of gold stacked on the leach pad in the period (referred to as the "recovery ratio") was 55% in the second quarter compared to 36% in the first quarter of 2008. In July 2008, the recovery ratio continued to improve to 60%. The recovery ratio can be an indicator of gold recovery levels, but is not necessarily a reliable measure of final recovery over the average 17-week leaching cycle. The Company believes that under ideal operating conditions, which the Company is striving to achieve with its continued operating improvements, the actual recovery will approach the levels of recovery indicated in bottle roll and column tests.

Crush size in the second 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. 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 has reduced the potential compaction associated with truck-loading ore on the leach pad. The conveying and stacking system together with the automated lime application process and inter-lift liners, have resulted in improved pH control and reduced processing costs. During the second quarter of 2008, the Company began belt cement agglomeration. Drum agglomeration is expected to begin in early 2009 once the drums are constructed and delivered to site.

The Company has also successfully implemented a new solution control system which allows for the grades of solution coming from the new divided cells of the leach pad to be controlled and either sent to the pregnant solution pond or to the intermediate pond. Generally, high grade solution is diverted to the pregnant pond for immediate processing and lower grade solution is diverted to the intermediate pond for subsequent treatment.

A final improvement in the production process will be the addition of a new train of carbon columns to process lower grade solution from the leach pad, which would otherwise be temporarily 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 and six-month periods ended June 30, 2008 and 2007 is presented below:

	Q2 2008	Q2 2007	YTD 2008	YTD 2007
Cash provided by operating activities before changes in non-cash working capital (000) [1]	$12,653	$7,312	$24,030	$12,250
Changes in non-cash working capital (000)	$2,545	($3,092)	$5,970	($4,613)
Cash provided by operating activities (000)	$15,198	$4,220	$30,000	$7,637
Earnings before income taxes (000)	$9,641	$3,025	$18,795	$5,048
Earnings (000)	$6,191	$1,888	$11,895	$3,077
Earnings per share				
- basic	$0.07	$0.02	$0.13	$0.03
- diluted	$0.06	$0.02	$0.12	$0.03
Weighted average number of common shares outstanding				
- basic	95,221,000	93,881,000	94,980,000	93,804,000
- diluted	97,412,000	96,437,000	97,072,000	96,446,000

[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 second quarter of 2008. A record realized gold price combined with record gold sales contributed to the Company generating $12.7 million in cash from operating activities before changes in non-cash working capital, and $15.2 million ($0.16 per share) after changes in non-cash working capital. The $15.2 million cash provided by operating activities represents a 260% increase over the $4.2 million ($0.04 per share) generated in the second quarter of 2007. Changes in non-cash working capital resulted in a use of cash of $3.1 million in the second quarter of 2007 as the Company was investing in its gold inventory and accumulating Mexican value added tax receivable balances.

The Company recognized earnings before income taxes of $9.6 million in the second quarter of 2008 compared to $3.0 million in the same period of 2007, an increase of 219%.

The Company recorded earnings of $6.2 million or $0.07 per share (basic) in the second quarter of 2008 compared to $1.9 million or $0.02 per share (basic) in the corresponding period of 2007.

Gold Sales

Details of gold sales are presented below:

	Q2 2008	Q2 2007	YTD 2008	YTD 2007
Gold sales (ounces)	35,482	30,880	70,091	58,080
Gold sales revenues (000)	$32,337	$20,797	$63,366	$37,755
Realized gold price per ounce	$911	$674	$904	$650
Average gold price for period (London PM Fix)	$896	$667	$910	$658

Gold sales revenues of over $32 million increased 55% in the second quarter of 2008 compared to the same period of 2007 as a result of a 35% increase in the realized gold price per ounce and a 15% increase in the number of ounces sold. The number of ounces sold increased in the three months ended June 30, 2008 compared to the same period of 2007 as a result of higher gold production.

The Company realized an average gold price of $911 per ounce in the second quarter of 2008, compared to an average London PM Fix spot gold price of $896 during the period. The Company generally enters into forward gold sales contracts twice monthly in order to match sales contracts with the next expected delivery. The Company's objective is to realize a gold sales price consistent with the average London PM Fix spot gold price. Periodically however, the Company may enter into forward gold sales contracts for future deliveries within a three-month future period in order to fix a gold price that management believes is attractive. Accordingly, apart from short-term gold sales activity, the Company is fully leveraged to increases in the price of gold.

Assessment of Gold Market

In mid-March 2008, the price of gold rose to over $1,000 an ounce. Since that time, the gold price has retraced to its current level of approximately $875 per ounce. At current gold prices, the Company realizes an operating cash margin (before taxes and corporate and administrative costs) of between $450 and $500 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:

	Q2 2008	Q2 2007	YTD 2008	YTD 2007
Gold production (ounces) (1)	38,500	28,200	71,753	53,140
Gold sales (ounces)	35,482	30,880	70,091	58,080
Cash operating costs (000)(2)	**$12,816**	**$11,061**	**$25,499**	**$20,080**
- Per ounce sold	**$361**	**$358**	**$363**	**$345**
Royalties and production taxes (000)(3)	$1,579	$1,057	$3,233	$1,949
Total cash costs (000)(4)	**$14,395**	**$12,118**	**$28,732**	**$22,029**
- Per ounce sold	**$405**	**$392**	**$409**	**$379**
Amortization (000)	$4,811	$2,974	$9,422	$5,428
Accretion expense (000)	$77	$44	$159	$89
Total production costs (000)(5)	**$19,283**	**$15,136**	**$38,313**	**$27,546**
- Per ounce sold	**$543**	**$490**	**$546**	**$474**
- Realized gold price per ounce	$911	$674	$904	$650
- Operating cash margin per ounce (6)	$506	$282	$495	$271

(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 June 30, 2008, the royalty was paid or accrued on approximately 250,000 ounces of applicable gold production. Royalty expense for the second quarter of 2008 was $1,579,000 compared to $1,057,000 in the same period of 2007 due to higher production applicable to royalty and a 34% increase in the average market price of gold.

Exploration

Exploration costs charged to operations during the second quarter of 2008 were $474,000 or 20% lower than the $589,000 incurred in the second quarter of 2007. Exploration costs in the second quarter of 2008 were focused on drilling at La Yaqui ($180,000), drilling preparation and road construction at Cerro Pelon ($45,000), metallurgical testing of El Victor ore ($34,000) and administration costs ($215,000). Comparatively, in the second quarter of 2007 the Company invested in drilling at El Victor ($340,000) and Los Bajios ($74,000), and administration costs and other minor projects ($175,000).

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. On a year-to-date basis in 2008, $562,000 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 $946,000 in the second quarter of 2008 were 19% higher than the $798,000 incurred in the second quarter of 2007. On a year-to-date basis, corporate and administrative costs of $1,974,000 are 18% higher in 2008 than in 2007. Higher corporate and administrative expenses in the three and six-month periods ended June 30, 2008 compared to the same periods of 2007 are the result of increased costs associated with the Company's administration office in Hermosillo and higher audit and internal control compliance costs.

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 second quarter of 2008 was $1,450,000 compared to $1,198,000 in the comparable period of 2007. Year-to-date stock-based compensation expense in 2008 of $2,420,000 compared to $1,635,000 in the same 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 following table presents the breakdown of stock-based compensation expense for the periods indicated:

	Q2 2008	Q2 2007
Number of stock options granted	1,495,000	1,990,000
Fair value of stock-based compensation (as determined by Black-Scholes option pricing model)	$3,395,000	$4,800,000
Weighted average per share fair value of options granted	$2.27	$2.41
Stock-based compensation expense attributable to options granted in current period	$679,000	$960,000
Amortization of fair value of options granted in prior period	$771,000	$238,000
	$1,450,000	**$1,198,000**

As presented in the table above, the higher stock-based compensation expense in the second quarter of 2008 is the result of the higher amortization of the fair value of prior period option grants. Based on existing stock option grants only, stock-based compensation expense for the remainder of 2008 is expected to be approximately $1,000,000 per quarter. Any additional grants in subsequent periods of 2008 will increase this expense.

Accretion Expense

Accretion expense includes accretion of the Company's asset retirement obligation liability, convertible debenture discount and property acquisition obligation liability.

The asset retirement obligation on the Company's balance sheet of $3,474,000 at June 30, 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 second quarter of 2008 was $56,000 compared to $44,000 in the second quarter of 2007. 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. On an annual basis, the Company hires an independent consultant to review and calculate the liability for seniority premiums and termination benefits in accordance with Mexican Labor Law. As at June 30, 2008, the Company had accrued an employee future benefit liability of $616,000. Employee future benefits expense of $9,000 in the second quarter of 2008 (year-to-date $26,000) is a non-cash charge reflecting the increase in the present value of the employee future benefit liability.

Interest Income

Interest income in the three-month period ended June 30, 2008 was $73,000, compared to $52,000 in the same period of 2007 due to higher average cash balances in the second quarter of 2008 compared to in 2007. The Company expects interest income to continue to increase on a quarterly basis, as strong cash flows from operations result in higher cash balances.

Interest Expense

Interest expense for the three-month period ended June 30, 2008 was $125,000 compared to $307,000 in the same period of 2007.

In the second quarter of 2008, the Company induced redemption of all outstanding convertible debentures and repaid its capital lease obligation liability. Accordingly, the Company no longer has any outstanding interest-bearing debt and expects interest expense to substantially lower in future quarters.

Foreign Exchange Loss

The Company recognized a foreign exchange loss of $211,000 in the second 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 $470,000 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. Offsetting the foreign exchange loss on revaluation of the future tax liability were foreign exchange gains realized on Mexican peso-denominated assets such as value-added tax receivables.

In the second quarter of 2007, the Company recognized a foreign exchange gain of $166,000 due to the effect of a strengthening 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 four months 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). All of the outstanding convertible debentures were converted or redeemed at the end of April 2008. Accordingly, the Company is currently 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 second quarter of 2008 of $3,840,000 compared to $137,000 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 tax installments on a monthly basis. The Company recorded a future income tax recovery of $390,000 in the second quarter of 2008 compared to future tax expense of $1,000,000 in the second quarter of 2007. The effective tax rate in the second quarter of 2008 was 36% compared to 38% in the second 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 tax expense in the first or second quarters 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 for the current year. 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.

	Q3 2006	Q4 2006 (Re-stated)	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Gold production (ounces)	24,880	31,720	24,940	28,200	21,670	31,390	33,253	38,500
Gold sales (ounces)	19,500	25,270	27,200	30,880	23,170	27,029	34,609	35,482
Gold sales ($000)	12,165	15,299	16,958	20,797	15,590	20,683	31,030	32,337
Earnings (loss) from operations ($000)	1,634	1,175	2,558	2,941	1,062	830	9,153	10,175
Earnings (loss) ($000)	835	(1,469)	1,189	1,888	117	(260)	5,703	6,191
Earnings (loss) ($ per share) – basic/diluted	0.01	(0.01)	0.01	0.02	0.00	(0.00)	0.06	0.07/ 0.06

The Company began commercial production at the Mulatos mine in the second quarter of 2006. 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 due to heavy seasonal rainfall which has the potential to adversely impact operations. Gold production, gold sales and earnings have trended higher over the past eight quarters as the Company has resolved start-up issues, optimized mining operations and benefited from rising gold prices. Higher realized gold prices and gold sales have resulted in improved financial results in each of the first two quarters 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 gains or losses 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 June 30, 2008, all reported cash and cash equivalents were held in bank deposit accounts or 30-day term deposits.

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 $0.4 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 and six-month periods ended June 30, 2008 is presented below:

	Q2 2008 ($000)	**YTD 2008** ($000)
Construction projects		
Conveying and stacking system	978	1,846
Agglomeration	335	383
Leach pad expansion and inter-lift liners	391	1,291
Warehouse	318	754
Truck shop	348	661
Camp improvements	22	226
Laboratory and ADR plant	243	358
	2,635	**5,519**
Mineral property and mine development		
Acquisitions and Mulatos relocation	1,558	2,219
Puerto del Aire capitalized exploration	(54)	562
	1,504	**2,781**
Other mine infrastructure	1,387	1,644
High-grade mill development	642	921
Mining equipment	957	1,508
Office and computer equipment	19	42
Cash invested in mineral property, plant and equipment	**7,144**	**12,415**

Capital spending in both the first and second quarters of 2008 was focused on successful completion of a number of key construction projects intended to improve recoveries and the efficiency of mining operations as described below.

In the second quarter and year-to-date in 2008, the Company invested $978,000 and $1,846,000 respectively on constructing and commissioning the conveying and stacking system and the related lime application silos. The conveying and stacking system was successfully commissioned in April 2008 and has contributed to improved levels of gold recovery, reduced lime consumption and generally higher gold production.

During the second quarter, the Company completed the first phase of its inter-lift liner program and commenced cement agglomeration. Spending related to agglomeration in the second quarter included construction of the necessary infrastructure to support belt cement agglomeration. The Company intends to begin drum agglomeration in the first quarter of 2009 once the agglomeration drums that have been ordered are constructed and delivered to site. Both of these projects were initiated to improve gold recoveries and preliminary results are positive.

Other significant construction spending in the second quarter of 2008 included completion of the warehouse, truck shop and laboratory. These investments are expected to improve the efficiency of mine operations and result in lower overall operating costs in future periods.

In the second quarter of 2008, the Company invested a total of $1,558,000 in conjunction with the planned relocation of the town of Mulatos, other land acquisitions and related legal costs. Included in the second quarter 2008 investments is $1,250,000 paid to certain landowners under a land purchase agreement. The initial payment provides the Company with temporary occupation rights to specified land. An additional $1,250,000 is payable once the land has been vacated and is transferred to the Company.

The relocation 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 $1,239,000 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, 2008. The discounted value of the liability was capitalized to mineral property, plant and equipment.

During the second quarter, the Company invested $1,387,000 in mine site infrastructure, focused primarily on the construction of a water treatment pond and an intermediate pond to optimize solution control during the rainy season. Investments in mine equipment during the second quarter included transportation vehicles and equipment and a new dozer to be used on the leach pad in conjunction with the conveying and stacking system.

A total of $642,000 was invested in the high-grade mill development project in the second quarter of 2008. A draft of the feasibility study is currently being reviewed by management and certain metallurgical and other testing is being completed to finalize the results of the study.

Exploration and Mine Development Activities

Exploration expenditures in the second quarter and year-to-date in 2008 were $474,000 and $1,600,000 respectively. Exploration activities in the first half of the year were focused on near mine reserve expansion and regional exploration.

Puerto del Aire
The Company completed its second phase drill program at Puerto del Aire, located immediately adjacent to the Estrella Pit, in the second quarter of 2008. Drilling and assaying costs incurred to-date in 2008 total $562,000 and were capitalized as mine development costs. The Company is currently in the process of developing an initial resource estimate for this area. The zone remains open to the northeast, with an intercept of 21.3 meters of 6.27 g/t Au obtained from a hole at the drilling limit.

La Yaqui
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 half of 2008 was focused on in-fill and step-out drilling and assaying activities at La Yaqui. The Company has invested a total of $470,000 year-to-date at La Yaqui, and is currently evaluating the final results of the first phase of drilling.

Cerro Pelon
During the second quarter of 2008, the Company completed extensive surface sampling and road preparation work for a planned 20-hole first phase drill program at Cerro Pelon. Cerro Pelon is located approximately 2.5 kilometers southwest of the leach pad and is a high-priority regional target for the Company, given both its proximity to existing mining operations and its geologic similarity to the Mulatos deposit.

In the second quarter of 2008, the Company completed a soil geochemical grid, and channel sampling of road cuts. Work-to-date has resulted in the identification of a well developed soil gold anomaly approximately 400 meters by 100 meters in size with a maximum concentration of 3.3 g/t Au. The zone is coincident with vuggy silica alteration.

New drill road cuts exposed two areas of extensive oxidized gold-bearing vuggy silica alteration within the soil anomaly area. Channel sampling along the upper cut has revealed two intervals of gold mineralization, the first containing an interval of 33.4 meters of 2.7 g/t Au with an included interval of 19.8 meters of 3.7 g/t Au. The second sample interval, located approximately 85 meters north, contains 27.4 meters of 1.36 g/t Au.

Phase I drilling began in late July and includes a planned 20 holes representing 3,000 meters in the southern part of the Cerro Pelon area. Additional holes will be added in the northern area once the final soil and channel sample results are received.

Liquidity and Capital Resources

At June 30, 2008, the Company had $18.4 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 $31.4 million at December 31, 2007 to $45.0 million at June 30, 2008.

Cash flows from operating activities in the second quarter of 2008 were $15.2 million or $0.16 per share. The Company reinvested $7.1 million in capital and exploration in the three months ended June 30, 2008 primarily focused on mine development and infrastructure improvements. The Company repaid all of its interest-bearing debt obligations in the second quarter of 2008 resulting in net cash flows used in financing activities of $7.8 million.

Strong cash flows from operations over the past three quarters have enabled the Company to eliminate all interest-bearing debt obligations. In the fourth quarter of 2007, the Company repaid its bank loan, and during the second quarter of 2008, the Company induced conversion of its outstanding convertible debenture liability and repaid in excess of $8.0 million to retire its capital lease obligations. 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 high grade mill development. If this project is determined to be economic, the Company expects to construct a mill to process high grade ores. 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 June 30, 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 June 30, 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 June 30, 2008, the Company had contracts to deliver up to 9,200 ounces of gold in the third quarter at prices below the June 30, 2008 closing market price. Accordingly, a mark-to-market loss of $200,000 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 June 30, 2008:

Payments due by period ($000)

Contractual Obligations	Total	Less than 1 year	2 – 3 years	4 – 5 years	More than 5 years
Operating lease	840	120	240	240	240
Employee future benefits [1]	1,160	-	-	-	1,160
Asset retirement obligations	5,403	-	-	-	5,403
Property acquisition obligations	1,437	466	592	379	-
	8,840	**586**	**832**	**619**	**6,803**

(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 June 30, 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:

	August 5, 2008
Common shares - Common shares outstanding	95,772,406
Stock options - Average exercise price CDN$6.00; Approximately 70% vested	6,884,500
Total	**102,656,906**

Outlook

Following its third consecutive quarter of record production, sales and financial results, the Company continues to demonstrate its ability to improve operating and financial performance. The table below presents key indicators of the Company's operating and financial performance over the past four quarters:

	Q3 2007	Q4 2007	Q1 2008	Q2 2008
Gold production (ounces)	21,670	31,390	33,253	38,500
Gold sales (ounces)	23,170	27,030	34,609	35,482
Cash operating cost (per ounce)	$408	$469	$366	$361
Total cash cost (per ounce)	$440	$509	$414	$405
Earnings from operations (000)	$1,062	$830	$9,423	$10,175
Cash flows from operations (after working capital change) (000)	$4,006	$9,215	$14,801	$15,198

Key investments made in 2007 and continuing into 2008 have provided the Company with the ability to increase gold production and reduce its cash operating costs. The expanded crushing circuit and conveying and stacking system are operational and contributing to improved levels of gold recovery. In the second quarter of 2008, the cement agglomeration circuit was completed and agglomerated material is now being stacked on the leach pad. Other capital projects including the warehouse, truck shop, laboratory and camp improvements have been completed and have contributed to operating efficiencies and reduced cash operating costs.

Preliminary indications of the results of the conveying and stacking system and agglomeration indicate that gold recoveries are improving. Leach pad percolation has improved and gold production in July 2008 was significantly higher than budgeted, despite higher than average recorded rainfall.

The Company is forecasting gold sales and gold production of 32,000 ounces for the third quarter of 2008. The rainy season in Mexico occurs in July and August and historically gold production in the third quarter has been adversely impacted by heavy rains. The Company's production guidance for the third quarter of 2008 represents a 48% increase over gold production of 21,670 ounces in the same period of the prior year. Cash operating costs and total cash costs are also expected to improve compared to the third quarter of 2007. The Company is forecasting that total cash costs (including the 5% royalty, which varies based on the gold price) will be below $430 per ounce of gold sold in the third quarter of 2008 compared to $440 in the same period of 2007. At current gold prices, the Company's cash operating margin is approximately $450 per ounce of gold sold.

A draft of the feasibility study evaluating the economics of constructing a mill to process high grade ores including the Escondida deposit has been completed. Management is in the process of reviewing the study and completing final metallurgical and related testing prior to making a construction decision. The Company expects to release the results of the feasibility study in September 2008.

The Company expects that its solid current financial position, including no debt, over $20 million in cash on hand and strong cash flows from operations will allow it to finance the majority of potential construction costs from existing cash flows, with partial financing from a debt facility or line of credit arrangement.

Drilling at the high-priority Cerro Pelon target is underway. Cerro Pelon represents an excellent prospect for gold discovery, having geology similar to the Mulatos deposit area, a well-developed soil anomaly sampled and identified gold mineralization in road cut channel sampling.

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.