

APOLLO GOLD CORP  
Form 10-Q  
May 11, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10 Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2005

Or

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001 31593

**APOLLO GOLD CORPORATION**

(Exact name of Registrant as Specified in Its Charter)

**Yukon Territory, Canada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**Not Applicable**  
(I.R.S. Employer Identification No.)

**5655 South Yosemite St., Suite 200  
Greenwood Village, Colorado 80111-3220**  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code **(720) 886 9656**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days

Yes ☐ No ○

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12 b2 of the Exchange Act).

Yes ☐ No ○

At May 6, 2005, there were 96,206,449 common shares of Apollo Gold Corporation outstanding.

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**STATEMENTS REGARDING FORWARD LOOKING INFORMATION**

This report contains forward looking statements within the meaning of Section 21e of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words expects, anticipates, intends, believes, or similar language. These forward looking statements involve risks, uncertainties and other factors. All forward looking statements included in this document are based on information available to us on the date hereof and speak only as of the date hereof. The factors discussed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2004 (the Annual Report) are among those factors that, in some cases, have affected our results and could cause the actual results to differ materially from those projected in the forward looking statements.

**ACCOUNTING PRINCIPLES, REPORTING CURRENCY AND OTHER INFORMATION**

Apollo Gold Corporation prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and publishes its financial statements in United States dollars. This Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report, as well as our annual financial statements for the fiscal year ended December 31, 2004 included in our Annual Report on Form 10-K.

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Certain classifications have been made to the prior period financial statements to conform with the current period presentation.

Unless stated otherwise, all dollar amounts are expressed in United States dollars.

References to we, our, us, the Company or Apollo mean Apollo Gold Corporation and its consolidated subsidiaries or to any one or more of them, as the context requires.

**NON GAAP FINANCIAL INFORMATION**

The cash operating, total cash and total production costs are non GAAP financial measures and are used by management to assess performance of individual operations as well as a comparison to other gold producers. We have included cash operating costs information to provide investors with information about the cost structure of our mining operations.

The term cash operating costs is used on a per ounce of gold basis. Cash operating costs per ounce is equivalent to direct operating expense, less production royalties and mining taxes but includes by product credits for payable silver, lead and zinc.

The term total cash costs is inclusive of the above with the addition of production royalties and mining taxes.

The term total production costs includes all total cash costs with the addition of the non cash portion of the costs including depreciation and amortization.

This information differs from measures of performance determined in accordance with generally accepted accounting principles (GAAP) in Canada and the United States and should not be considered in isolation or a substitute for measures of performance prepared in accordance with GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP and may not be comparable to similarly titled measures of other companies. See Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations for a reconciliation of these non-GAAP measures to our Statements of Operations.

**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission on March 16, 2005.

**Table of Contents****APOLLO GOLD CORPORATION****CONSOLIDATED BALANCE SHEETS**  
**(in thousands of United States Dollars)**

|  | <b>March 31,<br/>2005<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2004<br/>(Audited)</b> |
|--|---|--|
| <b>Assets</b>                          |   |  |
| <b>Current</b>                         |   |  |
| Cash and cash equivalents              | \$ 2,519                                  | \$ 6,947                                       |
| Accounts receivable                    | 5,962                                     | 3,088  |
| Prepays                                | 357                                       | 423  |
| Broken ore on leach pad                | 10,266                                    | 8,960  |
| Inventories                            | 2,505                                     | 3,242  |
| <b>Total Current Assets</b>            | <b>21,609</b>                             | <b>22,660</b>                                  |
| Broken ore on leach pad – long-term    | 2,467                                     | 4,824  |
| Property, plant and equipment          | 59,347                                    | 58,544   |
| Deferred stripping costs               | 37,365                                    | 36,851   |
| Restricted certificate of deposit      | 9,778                                     | 9,366  |
| Deferred loss on commodity contracts   | 335                                       | 1,340  |
| Deferred financing costs               | 823                                       | 901  |
| <b>Total Assets</b>                    | <b>\$ 131,724</b>                         | <b>\$ 134,486</b>                              |
| <b>Liabilities</b>                     |   |  |
| <b>Current</b>                         |   |  |
| Accounts payable                       | \$ 8,181                                  | \$ 10,035                                      |
| Accrued liabilities                    | 3,164                                     | 2,447  |
| Unrealized loss on commodity contracts | 337                                       | 1,500  |
| Notes payable                          | 2,406                                     | 2,833  |
| Property and mining taxes payable      | 1,225                                     | 1,070  |
| <b>Total Current Liabilities</b>       | <b>15,313</b>                             | <b>17,885</b>                                  |
| Notes payable and long-term liability  | 535                                       | 799  |
| Convertible debentures                 | 5,940                                     | 5,538  |
| Accrued site closure costs             | 26,617                                    | 26,192   |
| <b>Total Liabilities</b>               | <b>48,405</b>                             | <b>50,414</b>                                  |
| Continuing operations (Note 1)         |   |  |

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|  |            |            |
|--|------------|------------|
| Shareholders' Equity                       |            |            |
| Share capital (Note 4)                     | 144,385    | 141,795    |
| Issuable common shares                     | 231        | 231        |
| Equity component of convertible debentures | 1,809      | 1,815      |
| Note warrants                              | 781        | 781        |
| Contributed surplus                        | 10,023     | 9,627      |
| Deficit                                    | (73,910)   | (70,177)   |
| Total Shareholders' Equity                 | 83,319     | 84,072     |
| Total Liabilities and Shareholders' Equity | \$ 131,724 | \$ 134,486 |

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

**Table of Contents****APOLLO GOLD CORPORATION****CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**

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

(unaudited)

|  | <b>Three months ended</b> |                        |
|--|---------------------------|------------------------|
|  | <b>March 31,</b>          |                        |
|  | <b>2005</b>               | <b>2004</b>            |
|  |                           | (Restated -<br>Note 6) |
| Revenue  |                           |                        |
| Revenue from sale of minerals                              | \$ 15,694                 | \$ 19,979              |
| Operating Expenses   |                           |                        |
| Direct operating costs                                     | 16,808                    | 17,151                 |
| Depreciation and amortization                              | 1,234                     | 1,320                  |
| General and administrative expenses                        | 1,650                     | 1,730                  |
| Stock based compensation                                   | 202                       | 27                     |
| Accretion expense  | 414                       | 345                    |
| Royalty expense  | 88                        | 210                    |
| Exploration and business development                       | 240                       | 139                    |
|  | 20,636                    | 20,922                 |
| Operating Loss   | (4,942)                   | (943)                  |
| Other Income (Expenses)                                    |                           |                        |
| Interest income  | 104                       | 148                    |
| Interest expense   | (741)                     | (110)                  |
| Gain on sale of property, plant and equipment              | 1,834                     |                        |
| Foreign exchange loss and other                            | (26)                      | (188)                  |
| Realized and unrealized gain (loss) on commodity contracts | 38                        | (523)                  |
| Net loss for the period                                    | (3,733)                   | (1,616)                |
| Deficit, beginning of period                               | (70,177)                  | (51,988)               |
| Deficit, end of period                                     | \$ (73,910)               | \$ (53,604)            |
| Net loss per share, basic and diluted                      | \$ (0.04)                 | \$ (0.02)              |
| Weighted average number of shares outstanding              | 94,857,192                | 74,654,540             |

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

**Table of Contents****APOLLO GOLD CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

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

(unaudited)

|   | Share Capital    |            | Equity Component       |                        |              | Contributed |             | Total    |
|---|------------------|------------|------------------------|------------------------|--------------|-------------|-------------|----------|
|   | Number of Shares | Amount     | Issuable Common Shares | Convertible Debentures | Note Warrant | Surplus     | Deficit     |          |
| Balance, December 31, 2003                      | 73,539,790       | \$ 120,881 | \$ 231                 | \$                     | \$           | \$ 12,766   | \$ (51,988) | 81,890   |
| Units issued for cash                           | 8,299,999        | 4,873      |                        |                        |              | 622         |             | 5,495    |
| Conversion of special warrants                  | 2,326,666        | 1,449      |                        |                        |              | 50          |             | 1,499    |
| Flow-through common shares                      | 714,283          | 515        |                        |                        |              |             |             | 515      |
| Warrants exercised                              | 5,399,848        | 12,695     |                        |                        |              | (4,083)     |             | 8,612    |
| Options exercised                               | 399,054          | 966        |                        |                        |              | (647)       |             | 319      |
| Shares reacquired and cancelled                 | (20,500)         | (48)       |                        |                        |              |             |             | (48)     |
| Shares issued for Huizopa interest              | 48,978           | 88         |                        |                        |              |             |             | 88       |
| Shares issued for 2003 share-based compensation | 265,000          | 376        |                        |                        |              | (376)       |             |          |
| Bridge loan compensation warrants               |                  |            |                        |                        |              | 275         |             | 275      |
| Equity component of convertible debentures      |                  |            |                        | 1,815                  |              | 63          |             | 1,878    |
| Note warrant                                    |                  |            |                        |                        | 781          | 27          |             | 808      |
| Debenture compensation warrants                 |                  |            |                        |                        |              | 163         |             | 163      |
| Stock-based compensation                        |                  |            |                        |                        |              | 767         |             | 767      |
| Net loss  |                  |            |                        |                        |              |             | (18,189)    | (18,189) |
| Balance, December 31, 2004                      | 90,973,118       | 141,795    | 231                    | 1,815                  | 781          | 9,627       | (70,177)    | 84,072   |
| Unit issued for cash                            | 4,199,998        | 2,567      |                        |                        |              | 194         |             | 2,761    |
| Conversion of convertible debentures            | 33,333           | 23         |                        | (6)                    |              |             |             | 17       |
| Stock-based compensation                        |                  |            |                        |                        |              | 202         |             | 202      |



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|                            |            |            |        |          |     |           |            |           |
|----------------------------|------------|------------|--------|----------|-----|-----------|------------|-----------|
| Net loss                   |            |            |        |          |     |           | (3,733)    | (3,733)   |
| Balance, March 31,<br>2005 | 95,206,449 | \$ 144,385 | \$ 231 | \$ 1,809 | 781 | \$ 10,023 | \$(73,910) | \$ 83,319 |

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

**Table of Contents****APOLLO GOLD CORPORATION****CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands of United States Dollars)

(unaudited)

|   | <b>Three months ended</b> |                        |
|---|---------------------------|------------------------|
|   | <b>March 31,</b>          |                        |
|   | <b>2005</b>               | <b>2004</b>            |
|   |                           | (Restated<br>- Note 6) |
| <b>Operating Activities</b>                                   |                           |                        |
| Net loss for the period                                       | \$ (3,733)                | \$ (1,616)             |
| Items not affecting cash                                      |                           |                        |
| Depreciation and amortization                                 | 1,234                     | 1,320                  |
| Amortization of deferred financing costs                      | 80                        |                        |
| Stock based compensation                                      | 202                       | 27                     |
| Accretion expense accrued site closure costs                  | 414                       | 345                    |
| Accretion expense convertible debentures                      | 685                       |                        |
| (Decrease) Increase in unrealized loss on commodity contracts | (1,163)                   | 5,198                  |
| Decrease (Increase) in deferred loss on commodity contracts   | 1,005                     | (4,355)                |
| Gain on sale of property, plant and equipment                 | (1,834)                   |                        |
| Other   | (15)                      | (66)                   |
| Net change in non cash operating working capital items        | 759                       | (1,636)                |
|   | (2,366)                   | (783)                  |
| <b>Investing Activities</b>                                   |                           |                        |
| Property, plant and equipment expenditures                    | (3,058)                   | (3,123)                |
| Deferred stripping costs                                      | (515)                     | (3,515)                |
| Short-term investments  |                           | (2,057)                |
| Proceeds from disposal of property, plant and equipment       | 118                       |                        |
| Restricted Certificate of Deposit and other assets            | (412)                     | (45)                   |
|   | (3,867)                   | (8,740)                |
| <b>Financing Activities</b>                                   |                           |                        |
| Proceeds on issuance of shares                                | 2,761                     | 8,561                  |
| Convertible debentures interest paid                          | (265)                     |                        |
| Acquisition and cancellation of shares                        |                           | (48)                   |
| Payments of notes payable                                     | (691)                     | (1,074)                |
|   | 1,805                     | 7,439                  |
| Net decrease in cash  | (4,428)                   | (2,084)                |
| Cash and cash equivalents, beginning of period                | 6,947                     | 25,851                 |

|  |          |           |
|--|----------|-----------|
| Cash and cash equivalents, end of period | \$ 2,519 | \$ 23,767 |
| Supplemental Cash Flow Information:      |          |           |
| Interest paid                            | \$ 662   | \$ 110    |

During the three months ended March 31, 2004, property, plant and equipment totaling \$340,000 was acquired under a capital lease arrangement.

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

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**APOLLO GOLD CORPORATION**  
**Notes to the Consolidated Financial Statements**

**Three month period ended March 31, 2005**  
**(Stated in United States Dollars; tabular amounts in thousands)**  
**(Unaudited)**

**1. CONTINUING OPERATIONS**

These consolidated financial statements are prepared on the basis of a going concern which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. To date, Apollo has funded its operations primarily through issuances of debt and equity securities. The Company's ability to continue as a going concern is dependent on its ability to successfully operate the Montana Tunnels Mine and Florida Canyon Mine (including the Standard Mine), to generate cash flow for the remainder of 2005, and to raise additional funds from planned sales of spare mining equipment. We expect that these activities, in the aggregate will be sufficient to fund the operations for the remainder of 2005. External financing will be required to develop the Black Fox project. The availability, amount and timing of this financing is not certain at this time.

**2. NATURE OF OPERATIONS**

Apollo Gold Corporation ( Apollo or the Company ) is engaged in gold mining including extraction, processing, refining and the production of other by-product metals, as well as related activities including exploration and development. The Company currently owns and operates the Florida Canyon Mine, an open pit heap leach operation located in the State of Nevada; and the Montana Tunnels Mine, an open pit mine and mill, producing gold doré and lead-gold and zinc-gold concentrates located in the State of Montana. The Company also owns the Standard Mine which is situated 8 kms south of the Florida Canyon Mine. The Standard Mine shares common facilities, such as warehousing, administration and the gold recovery plant, with the Florida Canyon Mine. Standard is an open pit heap leach operation which was developed during 2004 and the first quarter 2005, pouring its first ounce of gold in December 2004 and is expected to be in commercial production in the second quarter 2005. The Company also owns the Diamond Hill Mine, currently under care and maintenance, also located in the State of Montana.

Apollo has a development property, the Black Fox Project, which is located in the Province of Ontario near the Township of Matheson. Apollo has four exploration properties located near the Florida Canyon Mine. Apollo also has rights to acquire up to an 80% interest in the Huizopa project located in the Sierra Madre gold belt in Mexico.

**3. ACCOUNTING POLICIES**

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ( Canadian GAAP ) and except as described in Note 8, conform in all material respects with accounting principles generally accepted in the United States ( U.S. GAAP ). The accounting policies followed in preparing these financial statements are those used by the Company as set out in the audited financial statements for the year ended December 31, 2004. Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with Canadian GAAP have been omitted. These interim financial statements should be read together with the Company's audited financial statements for the year ended December 31, 2004.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year.

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****3. ACCOUNTING POLICIES (Continued)**

Certain of the comparative figures have been reclassified to conform with the current period presentation.

**4. SHARE CAPITAL**

(a) On January 7, 2005, the Company completed the second tranche of a private placement of 4,199,998 units with a purchase price of \$0.75 for net proceeds of \$2.8 million, net of expenses \$0.3 million and fair value of broker's compensation warrants of \$0.2 million. Each unit is comprised of one common share of the Company and 0.75 share purchase warrant, with each whole share purchase warrant exercisable into one common share of the Company for two years at an exercise price of \$1.00 per share. In connection with this offering, 420,000 broker's compensation warrants were issued.

*(b) Warrants*

The following summarizes outstanding warrants as at March 31, 2005:

| <b>Warrants</b> | <b>Number of<br/>Shares</b> | <b>Exercise<br/>Price</b> | <b>Expiry<br/>Date</b> |
|-----------------|-----------------------------|---------------------------|------------------------|
| 653,277         | 653,277                     | \$ 1.67                   | September 26, 2005     |
| 63,969          | 63,969                      | 1.67                      | October 27, 2005       |
| 1,000,000       | 1,000,000                   | 0.80                      | October 19, 2006       |
| 1,400,133       | 1,400,133                   | 0.80                      | November 4, 2006       |
| 3,000,000       | 3,000,000                   | 2.10                      | December 23, 2006      |
| 6,224,999       | 6,224,999                   | 1.00                      | December 31, 2006      |
| 3,149,998       | 3,149,998                   | 1.00                      | January 7, 2007        |
| 5,253,600       | 5,253,600                   | 0.80                      | November 4, 2007       |
| 1,396,000       | 1,396,000                   | 0.80                      | November 4, 2007       |
| 22,141,976      | 22,141,976                  |                           |                        |

In addition, 1,250,000 compensation warrants are outstanding. Each compensation warrant is exercisable at \$0.75 into one common share of the Company and 0.75 share purchase warrants, with each whole share purchase warrant exercisable into one common share of the Company at \$1.00 per common share. The compensation warrants are immediately exercisable and expire on January 7, 2007. The share purchase warrants are exercisable for two years from the date of issuance.

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****4. SHARE CAPITAL (Continued)***(c) Options*

A summary of information concerning outstanding stock options at March 31, 2005 is as follows:

|                             | <b>Fixed Stock Options</b> |                 | <b>Performance based<br/>Stock Options</b> |                 |
|-----------------------------|----------------------------|-----------------|--|-----------------|
|                             | <b>Number</b>              | <b>Weighted</b> | <b>Number</b>                              | <b>Weighted</b> |
|                             | <b>of</b>                  | <b>Average</b>  | <b>of</b>                                  | <b>Average</b>  |
|                             | <b>Common</b>              | <b>Exercise</b> | <b>Common</b>                              | <b>Exercise</b> |
|                             | <b>Shares</b>              | <b>Price</b>    | <b>Shares</b>                              | <b>Price</b>    |
| Balances, December 31, 2004 | 2,196,300                  | \$ 2.10         | 1,904,756                                  | \$ 0.80         |
| Options granted             | 2,539,700                  | 0.65            |  |                 |
| Options cancelled           | (36,700)                   | (1.94)          |  |                 |
| Balances, March 31, 2005    | 4,699,300                  | \$ 1.31         | 1,904,756                                  | \$ 0.80         |

*(i) Fixed stock option plan*

The following table summarizes information concerning outstanding and exercisable fixed stock options at March 31, 2005:

**Options Outstanding****Options Exercisable**

| <b>Number</b>      | <b>Expiry Date</b> | <b>Weighted</b>  | <b>Number</b>      | <b>Weighted</b>  |
|--------------------|--------------------|------------------|--------------------|------------------|
| <b>Outstanding</b> |                    | <b>Average</b>   | <b>Exercisable</b> | <b>Average</b>   |
|                    |                    | <b>Exercise</b>  |                    | <b>Exercise</b>  |
|                    |                    | <b>Price</b>     |                    | <b>Price per</b> |
|                    |                    | <b>per Share</b> |                    | <b>Share</b>     |
| 1,481,200          | February 18, 2013  | \$ 2.24          | 1,481,200          | \$ 2.24          |
| 2,600              | March 28, 2013     | 2.34             | 2,600              | 2.34             |
| 70,000             | August 22, 2013    | 2.12             | 35,000             | 2.12             |
| 100,000            | November 13, 2013  | 1.67             | 50,000             | 1.67             |
| 347,000            | March 10, 2014     | 2.05             | 173,500            | 2.05             |
| 114,200            | May 19, 2014       | 1.44             |                    |                  |
| 42,800             | August 10, 2014    | 0.95             |                    |                  |
| 1,800              | November 10, 2014  | 0.60             |                    |                  |
| 2,539,700          | March 10, 2015     | 0.65             |                    |                  |

|           |    |      |           |    |      |
|-----------|----|------|-----------|----|------|
| 4,699,300 | \$ | 1.31 | 1,742,300 | \$ | 2.20 |
|-----------|----|------|-----------|----|------|

(ii) *Performance-based stock option plan*

As at March 31, 2005, the 1,904,756 performance-based stock options were fully vested and have an expiry date of June 25, 2007.



**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****4. SHARE CAPITAL (Continued)***(d) Stock-based compensation*

The fair value of each option granted is estimated at the time of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

|                         | <b>Three months ended March</b> |             |
|-------------------------|---------------------------------|-------------|
|                         | <b>2005</b>                     | <b>2004</b> |
| Risk free interest rate | 3.6%                            | 2.8%        |
| Dividend yield          | 0%                              | 0%          |
| Volatility              | 73%                             | 54%         |
| Expected life in years  | 5                               | 5           |

**5. INCOME TAXES**

The Company did not record a recovery for income taxes for the period ended March 31, 2005 as the net loss carry forwards are fully offset by a valuation allowance.

**6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT***Commodity contracts*

The Company entered into commodity contracts, with Standard Bank London Limited, for gold in the aggregate amount of 100,000 ounces involving the use of combinations of put and call options. As of March 31, 2005 there were 4,000 ounces remaining on these contracts. The remaining 4,000 ounces were completed on April 25, 2005. The contracts gave the holder the right to buy, and the Company the right to sell, stipulated amounts of gold with a put option strike price of \$295 per ounce and a call option strike price of \$345 per ounce. As at March 31, 2005, the fair value of the contracts was a loss of approximately \$0.3 million (December 31, 2004 \$1.5 million).

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)***Commodity contracts (continued)*

The Company incorrectly accounted for the above commodity contracts with Standard Bank London Limited as hedges during each of the quarters ended March 31, June 30 and September 30, 2004. Quarterly losses for 2004 have been restated to reflect the correct accounting treatment for these commodity contracts. The previously reported and restated information as at and for the three month period ended March 31, 2004 is disclosed below:

|   | <b>As reported</b> | <b>As restated</b> |
|---|--------------------|--------------------|
| <i>Statement of Operations</i>                      |                    |                    |
| Revenue   | \$ 20,079          | \$ 19,979          |
| Realized and unrealized loss on commodity contracts |                    | (523)              |
| Net loss  | (993)              | (1,616)            |
| Deficit   | (52,981)           | (53,604)           |
| Basic and diluted loss per share                    | (0.01)             | (0.02)             |
| <i>Balance Sheet</i>                                |                    |                    |
| Deferred loss on commodity contracts                |                    | 4,355              |
| Accounts payable                                    | 5,420              | 5,200              |
| Unrealized loss on commodity contracts              |                    | 5,198              |

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****7. SEGMENTED INFORMATION**

Apollo operates the Montana Tunnels, Florida Canyon Mines and the new Standard Mine in the United States and the Black Fox development project in Canada. As the products and services of the Company's largest segments, Montana Tunnels and Florida Canyon, are essentially the same, the reportable segments have been determined at the level where decisions are made on the allocation of resources and capital and where performance is measured. The accounting policies for these segments are the same as those followed by the Company as a whole. Financial information for Florida Canyon and the Standard Mine is combined since they share common facilities, such as warehousing, administration and the gold recovery plant. Mining activities at Florida Canyon were temporarily suspended on March 1, 2005, although gold production continues from the leach pad. A decision on resumption of mining will be made later in 2005.

The Standard mine is in the development stage and is expected to be in commercial production in the second quarter 2005. The revenue from gold production in the first quarter 2005 was credited to the capital cost of development.

Amounts as at March 31, 2005 are as follows:

|  | <b>Montana<br/>Tunnels</b> | <b>Florida<br/>Canyon/<br/>Standard</b> | <b>Black<br/>Fox</b> | <b>Corporate<br/>and<br/>Other</b> | <b>Total</b> |
|--|----------------------------|---|----------------------|------------------------------------|--------------|
| Cash and cash equivalents                | \$ 106                     | \$ (6)                                  | \$ 247               | \$ 2,172                           | \$ 2,519     |
| Broken ore on leach pad - current        |                            | 10,266                                  |                      |                                    | 10,266       |
| Other non-cash current assets            | 6,646                      | 1,945                                   | 99                   | 134                                | 8,824        |
|  | 6,752                      | 12,205                                  | 346                  | 2,306                              | 21,609       |
| Broken ore on leach pad - long-term      |                            | 2,467                                   |                      |                                    | 2,467        |
| Property, plant and equipment            | 15,955                     | 21,052                                  | 21,531               | 809                                | 59,347       |
| Deferred stripping costs                 | 37,365                     |   |                      |                                    | 37,365       |
| Restricted certificate of deposit        | 4,101                      | 4,995                                   | 558                  | 124                                | 9,778        |
| Deferred costs and losses                |                            | 335                                     |                      | 823                                | 1,158        |
| Total assets                             | \$ 64,173                  | \$ 41,054                               | \$ 22,435            | \$ 4,062                           | \$ 131,724   |
| Current liabilities                      | \$ 6,904                   | \$ 4,682                                | \$ 748               | \$ 2,979                           | \$ 15,313    |
| Notes payable and convertible debentures | 266                        | 269                                     |                      | 5,940                              | 6,475        |
| Accrued site closure costs               | 11,950                     | 14,667                                  |                      |                                    | 26,617       |
| Total liabilities                        | \$ 19,120                  | \$ 19,618                               | \$ 748               | \$ 8,919                           | \$ 48,405    |



**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****7. SEGMENTED INFORMATION (Continued)**

Amounts as at December 31, 2004 are as follows:

|                                     | <b>Montana<br/>Tunnels</b> | <b>Florida<br/>Canyon/<br/>Standard</b> | <b>Black<br/>Fox</b> | <b>Corporate<br/>and<br/>Other</b> | <b>Total</b> |
|-------------------------------------|----------------------------|---|----------------------|------------------------------------|--------------|
| Cash and cash equivalents           | \$ (260)                   | \$ 61                                   | \$ 53                | \$ 7,093                           | \$ 6,947     |
| Broken ore on leach pad - current   |                            | 8,960                                   |                      |                                    | 8,960        |
| Other non-cash current assets       | 4,985                      | 1,489                                   | 151                  | 128                                | 6,753        |
|                                     | 4,725                      | 10,510                                  | 204                  | 7,221                              | 22,660       |
| Broken ore on leach pad - long-term |                            | 4,824                                   |                      |                                    | 4,824        |
| Property, plant and equipment       | 17,239                     | 20,945                                  | 19,560               | 800                                | 58,544       |
| Deferred stripping costs            | 36,851                     |   |                      |                                    | 36,851       |
| Restricted certificate of deposit   | 3,752                      | 4,995                                   | 562                  | 57                                 | 9,366        |
| Deferred costs and losses           |                            | 1,340                                   |                      | 901                                | 2,241        |
| Total assets                        | \$ 62,567                  | \$ 42,614                               | \$ 20,326            | \$ 8,979                           | \$ 134,486   |
| Current liabilities                 | \$ 6,943                   | \$ 6,724                                | \$ 481               | \$ 3,737                           | \$ 17,885    |
| Notes payable                       | 423                        | 376                                     |                      | 5,538                              | 6,337        |
| Accrued site closure costs          | 11,753                     | 14,439                                  |                      |                                    | 26,192       |
| Total liabilities                   | \$ 19,119                  | \$ 21,539                               | \$ 481               | \$ 9,275                           | \$ 50,414    |

Table of Contents**APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****7. SEGMENTED INFORMATION (Continued)**

Amounts for the three month periods ended March 31, 2005 and 2004, respectively, are as follows:

|   | <b>Three Months Ended March 31, 2005</b> |                           |                      |                                    | <b>Total</b> |
|---|--|---------------------------|----------------------|------------------------------------|--------------|
|   | <b>Montana<br/>Tunnels</b>               | <b>Florida<br/>Canyon</b> | <b>Black<br/>Fox</b> | <b>Corporate<br/>and<br/>Other</b> |              |
| Revenue from sale of minerals                       | \$ 12,332                                | \$ 3,362                  | \$                   | \$                                 | \$ 15,694    |
| Direct operating costs                              | 12,974                                   | 3,834                     |                      |                                    | 16,808       |
| Depreciation and amortization                       | 688                                      | 514                       |                      | 32                                 | 1,234        |
| General and administrative expenses                 |  |                           |                      | 1,650                              | 1,650        |
| Stock-based compensation                            |  |                           |                      | 202                                | 202          |
| Accretion expense                                   | 197                                      | 217                       |                      |                                    | 414          |
| Royalty expenses                                    |  | 88                        |                      |                                    | 88           |
| Exploration and business development                |  |                           |                      | 240                                | 240          |
|   | 13,859                                   | 4,653                     |                      | 2,124                              | 20,636       |
| Operating loss                                      | (1,527)                                  | (1,291)                   |                      | (2,124)                            | (4,942)      |
| Interest income                                     |  |                           |                      | 104                                | 104          |
| Interest expense                                    | (23)                                     | (33)                      |                      | (685)                              | (741)        |
| Gain on sale of property, plant and equipment       | 1,365                                    | 469                       |                      |                                    | 1,834        |
| Foreign exchange loss and other                     |  |                           |                      | (26)                               | (26)         |
| Realized and unrealized gain on commodity contracts |  |                           |                      | 38                                 | 38           |
| Net loss  | \$ (185)                                 | \$ (855)                  | \$                   | \$ (2,693)                         | \$ (3,733)   |
| Investing activities                                |  |                           |                      |                                    |              |
| Property, plant and equipment expenditures          | \$ 31                                    | \$ 1,017                  | \$ 1,970             | \$ 40                              | \$ 3,058     |
| Deferred stripping expenditures                     | 515                                      |                           |                      |                                    | 515          |
|   | 14                                       |                           |                      |                                    |              |

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****7. SEGMENTED INFORMATION (Continued)**

|   | <b>Three Months Ended March 31, 2004</b> |                           |                      |                                    | <b>Total</b> |
|---|--|---------------------------|----------------------|------------------------------------|--------------|
|   | <b>Montana<br/>Tunnels</b>               | <b>Florida<br/>Canyon</b> | <b>Black<br/>Fox</b> | <b>Corporate<br/>and<br/>Other</b> |              |
| Revenue from sale of minerals                       | \$ 11,624                                | \$ 8,355                  | \$                   | \$                                 | \$ 19,979    |
| Direct operating costs                              | 10,200                                   | 6,951                     |                      |                                    | 17,151       |
| Depreciation and amortization                       | 576                                      | 717                       |                      | 27                                 | 1,320        |
| General and administrative expenses                 |  |                           |                      | 1,730                              | 1,730        |
| Stock based compensation                            |  |                           |                      | 27                                 | 27           |
| Accretion expense                                   | 41                                       | 304                       |                      |                                    | 345          |
| Royalty expenses                                    |  | 210                       |                      |                                    | 210          |
| Exploration and business development                |  |                           |                      | 139                                | 139          |
|   | 10,817                                   | 8,182                     |                      | 1,923                              | 20,922       |
| Operating income (loss)                             | 807                                      | 173                       |                      | (1,923)                            | (943)        |
| Interest income                                     |  |                           |                      | 148                                | 148          |
| Interest expense                                    | (44)                                     | (66)                      |                      |                                    | (110)        |
| Foreign exchange loss and other                     |  |                           |                      | (188)                              | (188)        |
| Realized and unrealized loss on commodity contracts |  |                           |                      | (523)                              | (523)        |
| Net income (loss)                                   | \$ 763                                   | \$ 107                    | \$                   | \$ (2,486)                         | \$ (1,616)   |
| Investing activities                                |  |                           |                      |                                    |              |
| Property, plant and equipment expenditures          | \$ 350                                   | \$ 699                    | \$ 2,007             | \$ 67                              | \$ 3,123     |
| Deferred stripping expenditures                     | 3,515                                    |                           |                      |                                    | 3,515        |
|   | 15                                       |                           |                      |                                    |              |

Table of Contents**APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****8. DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP**

The Company prepares its consolidated financial statements in accordance with Canadian GAAP. The following adjustments and/or additional disclosures would be required in order to present the financial statements in accordance with U.S. GAAP and with practices prescribed by the United States Securities and Exchange Commission for the three month periods ended March 31, 2005 and 2004.

Material variances between financial statement items under Canadian GAAP and the amounts determined under U.S. GAAP are as follows:

**Consolidated Balance Sheet**

March 31, 2005

|   | Broken Ore Leach Pad | Property and Equipment | Deferred Stripping Costs | Deferred Loss on Commodities Contracts | Deferred Financing | Convertible Debentures | Share Capital | Convertible Debentures | Contributed Surplus | Equity Component of Contributed Deficit |
|---|----------------------|------------------------|--------------------------|--|--------------------|------------------------|---------------|------------------------|---------------------|---|
| As at March 31, 2005, Canadian GAAP   | \$ 10,266            | \$ 59,347              | \$ 37,365                | \$ 335                                 | \$ 823             | \$ 5,940               | \$ 144,385    | \$ 1,809               | \$ 10,023           | \$ (73,910)                             |
| Impairment of property, plant and equipment, capitalized deferred stripping costs and change in depreciation and amortization (b) |                      | (4,686)                | (8,034)                  |  |                    |                        |               |                        |                     | (12,720)                                |
| Black Fox development costs (c)   |                      | (16,018)               |                          |  |                    |                        |               |                        |                     | (16,018)                                |
| Convertible debenture (d)(i)  |                      |                        |                          |  | 319                | 1,974                  | (1)           | (1,809)                | 123                 | 32                                      |
| Convertible debenture (d)(ii)   |                      |                        |                          |  |                    |                        |               |                        | 20,675              | (20,675)                                |



|   |           |           |           |          |          |            |           |          |              |
|---|-----------|-----------|-----------|----------|----------|------------|-----------|----------|--------------|
| Commodity contracts (e)                         |           |           | (335)     |          |          |            |           |          | (335)        |
| Flow through common shares (f)                  |           |           |           |          |          | (238)      |           |          | 238          |
| Commencement of operations at Standard Mine (i) | 266       | (580)     |           |          |          |            |           |          | (314)        |
| As at March 31, 2005, U.S. GAAP                 | \$ 10,532 | \$ 38,063 | \$ 29,331 | \$ 1,142 | \$ 7,914 | \$ 144,146 | \$ 30,821 | \$ 9,627 | \$ (123,702) |

**Consolidated Balance Sheet**  
December 31, 2004

|   | <b>Property and Equipment</b> | <b>Deferred Stripping Costs</b> | <b>Deferred Loss on Commodity Contracts</b> | <b>Deferred Financing</b> | <b>Convertible Debentures</b> | <b>Share Capital</b> | <b>Equity Component of Convertible Debentures</b> | <b>Contributed Surplus</b> | <b>Deficit</b> |
|---|-------------------------------|---------------------------------|---|---------------------------|-------------------------------|----------------------|---|----------------------------|----------------|
| As at December 31, 2004, Canadian GAAP  | \$ 58,544                     | \$ 36,851                       | \$ 1,340                                    | \$ 901                    | \$ 5,538                      | \$ 141,795           | \$ 1,815  | \$ 9,627                   | \$ (70,177)    |
| Impairment of property, plant and equipment, capitalized deferred stripping costs and change in depreciation and amortization (b) | (4,848)                       | (8,199)                         |   |                           |                               |                      |   |                            | (13,047)       |
| Black Fox development costs (c)   | (14,048)                      |                                 |   |                           |                               |                      |   |                            | (14,048)       |
| Convertible debenture (d)(i)  |                               |                                 |   | 350                       | 2,321                         |                      | (1,815)   | 123                        | (279)          |
| Convertible debenture (d)(ii)   |                               |                                 |   |                           |                               |                      |   | 20,675                     | (20,675)       |
| Commodity contracts (e)   |                               |                                 | (1,340)                                     |                           |                               |                      |   |                            | (1,340)        |
| Flow through common shares (f)  |                               |                                 |   |                           |                               | (238)                |   |                            | 238            |

As at  
December 31,  
2004, U.S.

|      |           |           |    |          |          |            |           |              |
|------|-----------|-----------|----|----------|----------|------------|-----------|--------------|
| GAAP | \$ 39,648 | \$ 28,652 | \$ | \$ 1,251 | \$ 7,859 | \$ 141,557 | \$ 30,425 | \$ (119,328) |
|------|-----------|-----------|----|----------|----------|------------|-----------|--------------|

Table of Contents**APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****8. DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP (Continued)**

Under U.S. GAAP, the net loss and net loss per share would be adjusted as follows:

|  | <b>2005</b> | <b>2004</b>           |
|--|-------------|-----------------------|
|  |             | (Restated<br>Note 8e) |
| Net loss for the three month period ended March 31, based on Canadian GAAP | \$ (3,733)  | \$ (1,616)            |
| Cumulative effect of change in accounting policy (a)                       |             | (1,508)               |
| Change in depreciation of property, plant and equipment (b)                | 162         | 142                   |
| Change in amortization of capitalized deferred stripping costs (b)         | 165         | 155                   |
| Black Fox development costs (c)  | (1,970)     | (1,995)               |
| Convertible debenture ((d)(i))   | 311         |                       |
| Commodity contracts loss (e)   | 1,005       | 1,005                 |
| Standard Mine development costs (i)  | (314)       |                       |
| Net loss for the period based on U.S. GAAP                                 | \$ (4,374)  | \$ (3,817)            |
| Comprehensive loss   | \$ (4,374)  | \$ (3,817)            |
| Net loss per share U.S. GAAP basic and diluted                             | \$ (0.05)   | \$ (0.05)             |

**(a) Stock-based compensation**

Under Canadian GAAP, effective January 1, 2004, the Company adopted the amended recommendations of CICA Handbook Section 3870. Under U.S. GAAP, effective January 1, 2004, the Company adopted the modified prospective method of accounting for stock-based compensation recommended in SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure* ( SFAS 148 ). Prior to January 1, 2004, the Company measured its employee stock-based awards using the intrinsic value method prescribed by APB No. 25, *Accounting for Stock Issued to Employees*.

**(b) Impairment of property, plant and equipment and capitalized deferred stripping costs**

Under Canadian GAAP, write-downs for impairment of property, plant and equipment and capitalized deferred stripping costs are determined using current proven and probable reserves and mineral resources expected to be converted into mineral reserves. In 2002, under U.S. GAAP, write-downs were determined using proven and probable reserves. Accordingly, for U.S. GAAP purposes, an impairment of property, plant and equipment and capitalized deferred stripping costs was recorded in 2002 and an adjustment to the related depreciation and amortization expense has been recorded.

(c) *Black Fox Project*

Under Canadian GAAP, mining development costs at the Black Fox Project have been capitalized. Under U.S. GAAP, these expenditures are expensed as incurred, pending completion of a feasibility study. Accordingly, for U.S. GAAP purposes, a reduction in property, plant and equipment of \$16.0 million has been recorded as at March 31, 2005.

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**APOLLO GOLD CORPORATION**

**Notes to the Consolidated Financial Statements**

**Three month period ended March 31, 2005**

**(Stated in United States Dollars; tabular amounts in thousands)**

**(Unaudited)**

**8. DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP (Continued)**

*(d) Convertible debenture*

- (i) Under Canadian GAAP, the convertible debentures were recorded as a compound financial instrument including detachable note warrants. On issuance in November 2004, under U.S. GAAP, the detachable note warrant is similarly treated as an equity instrument with the remainder of the convertible debentures treated as a liability. Further, under U.S. GAAP, the beneficial conversion feature determined using the effective conversion price based on the proceeds allocated to the convertible debenture in accordance with EITF 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, is allocated to contributed surplus. This discount on the debenture is recognized as additional interest expense immediately as the debt is convertible at the date of issuance. Canadian GAAP does not require the recognition of any beneficial conversion feature.
  
- (ii) Under Canadian GAAP, the convertible debentures were recorded as an equity instrument on issuance in March 2002. Under U.S. GAAP, on issuance, the convertible debenture would have been recorded as a liability and reclassified to equity only upon conversion. Further, under U.S. GAAP, the beneficial conversion feature represented by the excess of the fair value of the shares and warrants issuable on conversion of the debenture, measured on the commitment date, over the amount of the proceeds to be allocated to the common shares and warrants upon conversion, would be allocated to contributed surplus. This results in a discount on the debenture that is recognized as additional interest expense over the term of the debenture and any unamortized balance is expensed immediately upon conversion of the debenture. Accordingly, for U.S. GAAP purposes, the Company has recognized a beneficial conversion feature and debenture issuance costs of \$20.7 million in the year ended December 31, 2002. Canadian GAAP does not require the recognition of any beneficial conversion feature.

**Table of Contents****APOLLO GOLD CORPORATION****Notes to the Consolidated Financial Statements****Three month period ended March 31, 2005****(Stated in United States Dollars; tabular amounts in thousands)****(Unaudited)****8. DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP (Continued)***(e) Commodity contracts*

Prior to January 1, 2004 under U.S. GAAP unrealized gains and losses on the put and call option contracts were recorded in the statement of operations. As of January 1, 2004, the Company adopted the provisions of Accounting Guideline 13 and unrealized gains and losses on these contracts are now recorded in the statement of operations under Canadian GAAP. As described in Note 6, quarterly losses for 2004 have been restated to reflect the correct accounting treatment for these commodity contracts in accordance with Canadian GAAP. Similarly, under U.S. GAAP the Company incorrectly accounted for the unrealized loss on cash flow hedges as a component of comprehensive loss, rather than net loss for the period. The previously reported and restated information as at and for the three month period ended March 31, 2004 is disclosed below:

|   | <b>As<br/>reported</b> | <b>As<br/>restated</b> |
|---|------------------------|------------------------|
| Realized and unrealized gain on commodity contracts | \$ 819                 | \$ 1,005               |
| Net loss  | \$ (3,380)             | \$ (3,817)             |
| Unrealized loss on cash flow hedges                 | (437)                  |                        |
| Comprehensive loss                                  | \$ (3,817)             | \$ (3,817)             |

*(f) Flow-through common shares*

Under Canadian income tax legislation, a company is permitted to issue shares whereby the company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company has accounted for the issue of flow-through shares using the deferral method in accordance with Canadian GAAP. At the time of issue, the funds received are recorded as share capital. For U.S. GAAP, the premium over (discount from) market value is credited (debited) to other liabilities (deferred costs) and included in income as the qualifying expenditures are made.

Also, notwithstanding whether there is a specific requirement to segregate the funds, the flow-through funds which are unexpended at the consolidated balance sheet dates are considered to be restricted and are not considered to be cash or cash equivalents under U.S. GAAP. As at March 31, 2005, unexpended flow-through funds were \$ 0.4 million (December 31, 2004 \$0.6 million).

*(g) Statement of cash flows*

Under Canadian GAAP, expenditures incurred for deferred stripping costs are included in cash flows from investing activities in the consolidated statement of cash flows. Under U.S. GAAP, these expenditures are

included in cash flows from operating activities. Accordingly, under U.S. GAAP, the consolidated statement of cash flows for the three month periods ended March 31, 2005 and 2004 would reflect a reduction in cash utilized in investing activities of \$0.5 million and \$3.5 million, respectively, and a corresponding increase in cash utilized in operating activities.

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**APOLLO GOLD CORPORATION**

**Notes to the Consolidated Financial Statements**

**Three month period ended March 31, 2005**

**(Stated in United States Dollars; tabular amounts in thousands)**

**(Unaudited)**

**8. DIFFERENCES BETWEEN CANADIAN AND U.S. GAAP (Continued)**

*(h) Comprehensive income*

Statement of Financial Accounting Standards ( SFAS ) No. 130, *Reporting Comprehensive Income* ( SFAS 130 ) establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement. For the Company, the only component of comprehensive loss is the net loss for the period.

*(i) Commencement of operations at Standard Mine*

According to Canadian GAAP the Standard Mine was not in production in the first quarter 2005. Under U.S. GAAP, commercial production is defined as when construction is complete and saleable minerals are produced which was March 1, 2005. Accordingly per U.S. GAAP purposes a reduction in property, plant and equipment of \$0.6 million, an addition of broken ore inventory of \$0.3 million and net loss of \$0.3 million has been recorded at March 31, 2005.

*(j) Recently issued accounting pronouncements*

In March 2005, The EITF reached a consensus that stripping costs incurred during the production phase are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred. The consensus in this issue is effective for fiscal periods beginning after December 15, 2005, with early adoption permitted. The effect of initially applying this consensus will be accounted for similar to a cumulative effect adjustment under APB Opinion No. 20. Disclosure of the pro forma effects of the application on net income is not required. Alternatively, an entity may recognize this change in accounting by restating its prior period financial statements through retrospective application of this consensus. The Company is currently evaluating the impact of this consensus.

**9. SUBSEQUENT EVENT**

Subsequent to March 31, 2005, the Company has restructured its existing earn-in joint venture arrangement with Argonaut Mines LLC ( Argonaut ) at the Huizopa project in Mexico and the Company issued 1,000,000 common shares to Argonaut on May 6, 2005. Following the restructuring the Company's Mexican subsidiary will own Argonaut's former subsidiary which has a contractual interest in two of the concessions at the project and the Company will no longer have any earn-in requirements for the project.



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**ITEM MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS**  
**2. OF**  
**OPERATIONS**

**ALL DOLLAR AMOUNTS ARE EXPRESSED IN UNITED STATES DOLLARS**

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and related notes. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). For a reconciliation to accounting principles generally accepted in the United States (US GAAP), see Note 8 to the attached consolidated financial statements.

In this Form 10-Q, the terms *cash operating cost* and *total cash cost* are used on a per ounce of gold basis. Cash operating cost per ounce is equivalent to direct operating costs expense for the period as found on the Consolidated Statements of Operations, less mining taxes and by-product credits received for silver, lead, and zinc production divided by the number of ounces of gold sold during the period. Total cash cost per ounce is equivalent to mining operation expenses for the period, less by-product credits received for silver, lead and zinc production, plus royalty expenses payable, divided by the number of ounces of gold sold during the period. The term *total production costs* is total cash costs plus depreciation and amortization.

| Reconciliation of<br>Cash Operating and Total Production Costs Per Ounce<br>(\$ in thousands) | Three months ended<br>March 31, |               |
|---|---------------------------------|---------------|
|   | <b>2005</b>                     | <b>2004</b>   |
| Gold Ounces Sold  | 22,491                          | 33,170        |
| Direct Operating Costs  | 16,808                          | 17,151        |
| Less: Mining Taxes  | 417                             | 401           |
| By-Product Credits  | 7,050                           | 7,371         |
| Cash Operating Cost   | 9,341                           | 9,379         |
| Cash Operating Cost per Ounce   | <b>\$ 415</b>                   | <b>\$ 283</b> |
| Cash Operating Costs  | 9,341                           | 9,379         |
| Add: Mining Taxes   | 417                             | 401           |
| Royalty Expense   | 88                              | 210           |
| Total Cash Costs  | 9,846                           | 9,990         |
| Total Cash Cost per Ounce   | <b>\$ 438</b>                   | <b>\$ 301</b> |
| Total Cash Costs  | 9,846                           | 9,990         |
| Add: Depreciation & Amortization (operations only)  | 1,202                           | 1,293         |
| Total Production Costs  | 11,048                          | 11,283        |
| Total Production Cost per Ounce   | <b>\$ 491</b>                   | <b>\$ 340</b> |

We have included total cash cost and cash operating cost information to provide investors with information about the cost structure of our mining operations. We use this information for the same purpose and for monitoring the performance of our operations. This information differs from measures of performance determined in accordance with Canadian and US GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian and US GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP and may not be comparable to similarly titled measures of other companies.

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The following presents a discussion of the financial condition and results of operations of the Company for the three months ended March 31, 2005 and the same time period for 2004.

**BACKGROUND AND RECENT DEVELOPMENTS**

We are principally engaged in the exploration, development and mining of gold. We own and operate the Florida Canyon Mine, a low grade heap leach gold mine located southwest of Winnemucca, Nevada; the Standard Mine, also a low grade heap leach gold operation, located 5 miles south of Florida Canyon; the Montana Tunnels Mine, a gold, silver, lead and zinc open pit mine, located near Helena, Montana; and the Black Fox development property, located east of Timmins, Ontario, Canada. We own or have rights to several exploration properties in Mexico and Nevada.

In the first quarter 2005 gold production was 22,491 ounces at a total cash cost of \$438 per ounce.

Production at Montana Tunnels at 12,645 ounces was lower than expected but higher than the 10,783 ounces produced in the same period 2004. Total cash costs at Montana Tunnels at \$472 per ounce were higher than expected and also higher than those in the same period 2004.

Production at Florida Canyon was slightly higher than expected at 9,846 ounces but significantly lower than the first quarter 2004 when production was 22,387 ounces.

At Florida Canyon during the first quarter 2005, the decision was taken to focus on the new Standard Mine and therefore, mining activity at Florida Canyon was temporally suspended from March 1, 2005. Production of gold however, continues at Florida Canyon as the gold contained within the pad is leached.

The Standard Mine was developed during 2004 along with the construction of the associated heap leach facilities. Under Canadian GAAP it was determined that due to the plant only being commissioned in late February 2005, coupled with the limited leach pad fields available for leaching, the mine was not in production during the first quarter 2005. Under US GAAP production commenced on March 1, 2005, following completion of the plant.

During the first quarter 2005 at Black Fox, 63 underground holes (14,803 meters) and 44 surface holes (7,941 meters) were completed, bringing total drilling conducted by Apollo to 442 surface holes and 273 underground holes or a total of 190,000 meters. The permitting process and a feasibility study were commenced in 2004 based on a plan for a combined open pit and underground mine, with an on-site mill, with a capacity of approximately 1,500 tonnes of ore per day. The feasibility study is expected to be completed in late 2005.

The table below summarizes our production for gold, silver and other metals, as well as average metals prices, for each period indicated:

**Table of Contents****Apollo Gold Corporation's Production & Metals Price Averages (1)**

|                                       | <b>1<sup>st</sup> Qtr.</b> |             |             |             |             |
|---------------------------------------|----------------------------|-------------|-------------|-------------|-------------|
|                                       | <b>2005</b>                | <b>2004</b> | <b>2003</b> | <b>2002</b> | <b>2001</b> |
| Gold (Ounces)                         | 22,491                     | 106,825     | 145,935     | 148,173     | 192,887     |
| Silver (Ounces)                       | 170,405                    | 1,031,156   | 471,241     | 275,925     | 963,050     |
| Lead (Pounds)                         | 3,124,092                  | 10,064,265  | 10,843,184  | 5,481,230   | 13,759,579  |
| Zinc (Pounds)                         | 6,420,429                  | 26,222,805  | 21,792,452  | 15,328,392  | 40,158,321  |
| Average Metal Prices:                 |                            |             |             |             |             |
| Gold London Bullion Mkt. (\$/ounce)   | \$ 427                     | \$ 409      | \$ 364      | \$ 310      | \$ 271      |
| Silver London Bullion Mkt. (\$/ounce) | \$ 6.97                    | \$ 6.66     | \$ 4.88     | \$ 4.59     | \$ 4.37     |
| Lead LME (\$/pound)                   | \$ 0.44                    | \$ 0.40     | \$ 0.23     | \$ 0.20     | \$ 0.22     |
| Zinc LME (\$/pound)                   | \$ 0.60                    | \$ 0.48     | \$ 0.38     | \$ 0.35     | \$ 0.40     |

(1) Includes the operations of Nevoro Gold Corporation and its wholly owned subsidiary Apollo Gold Inc., prior to June 25, 2002.

Gold production in the first quarter 2005 was approximately 2,500 ounces lower than expected. This short fall in production was at Montana Tunnels, due to a combination of lower mill through-put and lower grade of ore. Florida Canyon produce 9,846 ounces, slightly above expectation. Apollo's total cash costs for the quarter were \$438 per ounce of gold which was higher than expected with the cost at Florida Canyon being \$394 per ounce and at Montana Tunnels being \$472 per ounce.

As a result of the slower ramp up of the Standard Mine during the first quarter 2005 and the slightly lower than expected grades at Montana Tunnels, the Company has undertaken a review of its production forecasts for the remainder of the year. This review indicates that production for the remaining three quarters of 2005 will be in the range 87,000 to 107,000 ounces of gold at a total cash cost of approximately \$350 to \$380 per ounce. Total cash cost per ounce is as defined by the Gold Council and therefore includes such items as deferred stripping and drawdown of leach pad inventories, which is expected to total approximately \$70 per ounce during the last three quarters of 2005.

**Material Changes in Results of Operations**

Our revenues for the three months ended March 31, 2005 were \$15.7 million derived primarily from the sale of 22,491 ounces of gold. This compares to \$20.0 million derived primarily from the sale of 33,170 ounces of gold for the same period in 2004. The average price received for gold for the first three months of 2005 and 2004 was \$384 and \$380 per ounce, respectively. Our revenues for silver, zinc and lead for the three months ended March 31, 2005 were \$7.0 million compared to \$7.4 million during the same period 2004. The lower revenue in 2005 was due to reduced gold production as a result of the curtailment of mining activities at Florida Canyon and lower milling grades at Montana Tunnels.

Sales of minerals from our Montana Tunnels Mine accounted for 79% of our revenues for the three months ended March 31, 2005, with the remaining 21% of revenues derived from sales of minerals from our Florida Canyon Mine. In the three months ended March 31, 2005, we received approximately 55% of our revenue from sales of gold and 45% from sales of silver, zinc and lead compared to 63% from the sales of gold and 37% from the sales of silver, zinc and lead for the same period in 2004. The drop in gold revenue percentage in 2005 is a result of the lower production from Florida Canyon mine.

We sold 22,491 ounces of gold in the first quarter 2005 at a total cash cost of \$438 per ounce, compared to 33,170 ounces at a total cash costs of \$301 per ounce in the first quarter 2004. The increase

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in total cash costs is primarily attributable to the lower production at Florida Canyon plus the higher cost of fuel and steel at both operations.

**Montana Tunnels**

During the first quarter of 2005, 5.4 million tons were mined at Montana Tunnels. Waste removed totaled 3.7 million tons. Revenues at Montana Tunnels were slightly behind our projections as the gold ore grades were slightly less than planned. Lower than planned mill throughput was due to process water quality problems resulting in lower gold and total metal production.

The following presents the key statistics for the Montana Tunnels operation for the first quarter of 2005 and 2004.

|                                   | <b>2005</b>    | <b>2004</b>    |
|-----------------------------------|----------------|----------------|
|                                   | <b>First</b>   | <b>First</b>   |
|                                   | <b>Quarter</b> | <b>Quarter</b> |
| Tons Mined                        | 5,395,823      | 8,932,282      |
| Tons Milled                       | 1,410,782      | 1,108,589      |
| Production:                       |                |                |
| Gold Ounces                       | 12,645         | 10,783         |
| Silver Ounces                     | 164,006        | 118,758        |
| Lead Pounds                       | 3,124,092      | 3,143,393      |
| Zinc Pounds                       | 6,420,429      | 9,040,272      |
| Total cash costs per ounce        | \$ 472         | \$ 278         |
| Total production costs per ounce  | \$ 527         | \$ 332         |
| Total Revenue (\$millions)        | \$ 12.3        | \$ 11.6        |
| Capital Expenditures (\$millions) | \$ 0.5         | \$ 3.8         |

Total mine tonnage moved during the first quarter 2005 was 5,395,823 tons compared to 8,932,282 tons mined in the same quarter 2004. Of the total mined in the first quarter 2005, 1,415,000 tons was ore, giving a strip ratio for the quarter of 2.6:1 which was slightly higher than expected. This compares to ore mined in the first quarter 2004 of 1,249,000 tons for a strip ratio of 6.0:1.

Following the mill up-grade in 2004, 1,410,782 tons were milled in the quarter ended March 31, 2005 compared to 1,108,589 tons in the same quarter 2004. Ounces of gold produced at 12,645 ounces was 1,862 ounces higher than in 2004 but lower than expected as a result of tonnage through-put and lower than forecast grade. The lower than expected milling tonnage was due to severe weather in January and February causing the tailings pond to freeze, more than in previous winters. These factors, together with the unusual low water levels in the pond, restricted water supply to historic levels of milling rather than the up-rated throughput planned as a result of the mill upgrade project in 2004. These problems were identified and corrective action was taken.

The lower grade of gold ore not only affected gold production but also zinc production, the revenue from which is treated as a by-product and therefore lowers the total cash cost per ounce of gold. Lower production of zinc therefore led to a higher total cash cost per ounce of gold.

**Florida Canyon**

At Florida Canyon, production was 9,846 ounces of gold at a total cash cost of \$394 per ounce for the three months ended March 31, 2005 as compared to 22,387 ounces of gold at a total cash cost of \$314 per ounce for the same period in 2004. This lower production was a result of the lower mining activity

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following the reduction to one shift in the third quarter of 2004 and the temporary cessation of mining on March 1, 2005.

The original plan was to mine throughout 2005. However management determined at the end of February that it should focus its manpower and resources on the Standard Mine and therefore the decision was taken to temporarily suspend mining activity from March 1, 2005 and to continue to produce gold by leaching down the gold contained within the existing pad. The decision whether to build the leach pad extension, which is fully permitted, and to resume mining will be taken later in the year. The mine cash costs were slightly higher than expected due to mining problems encountered in January and the early part of February as Nevada experienced its worst winter in decades with heavy snowfalls and freezing fogs disrupting mining activity and the leaching of the pad both during the snow and the subsequent thaw.

Following are key operating statistics at Florida Canyon for the first quarter of 2005 compared to 2004:

|                                  | <b>2005<br/>First<br/>Quarter</b> | <b>2004<br/>First<br/>Quarter</b> |
|----------------------------------|-----------------------------------|-----------------------------------|
| Tons mined                       | 960,292                           | 6,389,682                         |
| Gold production                  | 9,846                             | 23,387                            |
| Silver production                | 6,399                             | 20,055                            |
| Total cash costs per ounce       | \$ 394                            | \$ 314                            |
| Total production costs per ounce | \$ 446                            | \$ 346                            |
| Total revenue (\$ millions)      | \$ 3.2                            | \$ 8.4                            |
| Capital Expenditures:            |                                   |                                   |
| Florida Canyon (\$ millions)     | \$ 0.0                            | \$ 0.1                            |
| Standard Mine (\$ millions)      | \$ 1.0                            | \$ 0.6                            |

**Standard Mine**

At the Standard Mine loading of ore onto the heap leach pad continued throughout the quarter and the area under leach was expanded.

During the first quarter 2005, tons mined were as expected at 2,012,711 tons of which 774,000 tons were ore with the balance being waste giving a strip ratio of 1.6:1. This strip ratio was higher than the average expected for the year 2005. All ore tons were placed on the pad at an average grade of 0.0163 ounces per ton.

Under Canadian GAAP it was determined that due to construction of the plant only being completed in late February 2005, coupled with the limited number of leach fields available, the mine was not in production in the first quarter 2005. Standard Mine produced 3,600 ounces of gold during this period, the revenue from which was credited against capital costs.

**Costs**

Direct operating costs were \$16.8 million and \$17.2 million for the three months ended March 31, 2005 and 2004, respectively. These amounts include mining and processing costs. Depreciation and amortization expenses were \$1.2 million for the three months ended March 31, 2005 as compared to \$1.2 million for the same period 2004.

General administrative expenses were \$1.7 million for the three months ended March 31, 2005, unchanged from the first quarter 2004. As from January 2004 the Company adopted the fair value method of accounting for stock options as set out in CICA Handbook section 3870, Stock Based



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Compensation and Other Stock Based Payments. As a result, share based compensation was \$202,000 in 2005 compared to \$27,000 in the same period of 2004.

Accrued accretion expense was \$0.4 million related to accrued site closure costs at the Florida Canyon and Montana Tunnels mines for the three months ended March 31, 2005 compared to \$0.3 million in the same period of 2004. Royalty expenses were \$88,000 for the three months ended March 31, 2005 as compared to \$210,000 at March 31, 2004 as a result of the lower gold production at Florida Canyon.

Expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.2 million and \$0.1 million for the three months ended March 31, 2005 and 2004, respectively. The increase in expenditures is due to increased exploration activities in Mexico.

As a result of these expense components, our operating expenses totaled approximately \$20.6 million for the three months ended March 2005, as compared to approximately \$20.9 million for the same period in 2004.

Apollo realized interest income of \$104,000 during the three months ended March 31, 2005 and interest expense of \$741,000 in the same period compared to \$148,000 in interest income and \$110,000 in interest expense during the comparable period in 2004. The interest income reduction is due to lower levels of cash being invested. The increase in interest expense is due to accretion on the convertible debenture issued in the fourth quarter of 2004.

A \$1.8 million gain on sale of spare mining equipment was realized during the first quarter 2005.

Foreign exchange losses were \$26,000 and \$188,000 during the three months ended March 31, 2005 and 2004, respectively, from cash balances held in Canadian dollars. Apollo utilizes United States dollars as its functional and reporting currency.

There was a \$38,000 gain for the three months ended March 31, 2005 for the commodities contract with Standard Bank as compared to a \$523,000 loss for the three months ended March 31, 2004.

Based on these factors, Apollo incurred a loss of \$3.7 million or \$0.04 per share for the three months ended March 31, 2005, as compared to a loss of \$1.6 million or \$0.02 per share, for the three months ended March 31, 2004.

**Material Changes in Liquidity**

To date, Apollo has funded its operations primarily through issuances of debt and equity securities. At March 31, 2005, cash and cash equivalents was \$2.5 million, compared to cash and cash equivalents of \$6.9 million at December 31, 2004. The decrease in cash from December 31, 2004 was primarily the result of operating cash outflows of \$2.4 million, investment activities of \$3.9 million plus a reduction of capital lease debt of \$0.7 million and debenture interest paid of \$0.3 million. These outflows were offset by funds from proceeds on issuance of shares of \$2.8 million.

Investing activities used \$3.9 million of cash during the three months ended March 31, 2005, compared to \$8.7 million in the same period 2004. Capital expenditures in the first quarter were \$3.6 million of which \$1.0 million were expended at Standard Mines, \$2.0 million for the further development of the Black Fox project and \$0.5 million in respect of the finalization of the Montana Tunnels waste strip program. In addition to this capital expenditure, \$0.4 million was invested in the restricted cash account as part of the Montana Tunnels reclamation liability.

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During the quarter, the Company's put/call gold straddle position was reduced from 16,000 ounces of gold down to 4,000 as of March 31, 2005. The final 4,000 ounces was delivered into the contract on April 25, 2005.

Apollo intends to raise additional funds from the sale of spare mining equipment and may raise additional financing from the sale of debt or equity securities, which may include Canadian flow-through financing to fund a portion of its Canadian exploration. We expect that these funds, together with internally generated funds, will be sufficient to fund the remainder of the 2005 corporate overheads of approximately \$5.0 million, lease payments of \$1.8 million and debenture interest of \$0.8 million.

Financing activities for the three months ending March 31, 2005 included completing the second tranche of a registered offering of 4,199,998 units with an issue price of \$0.75 for proceeds of \$2.8 million, net of expenses of \$0.3 million and fair value of broker's compensation warrant of \$0.2 million.

## **Differences Between Canadian and US Generally Accepted Accounting Principles (GAAP)**

The Company reports under Canadian GAAP and reconciles to US GAAP. The application of US GAAP has a significant effect on the net loss and net loss per share. For a detailed explanation see Note 8 of our interim financial statements.

## **Critical Accounting Estimates and Policies**

The preparation of financial statements in conformity with generally accepted accounting principals requires management to make a variety of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting periods covered by the financial statements.

Our significant accounting policies are disclosed in Note 3 to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2004.

## **Contractual Obligations**

The Company has several outstanding equipment leases and financings. As of March 31, 2005, there are no material changes from the information presented in the Company's Annual Report.

## **Off Balance Sheet Arrangements**

We have a contingent liability at our Black Fox property in the form of a \$Cdn 3.0 million pre-production royalty payment to the original owners of the property due if and when the mine reaches commercial production.

## **Environmental**

As of March 31, 2005, we have accrued \$26.6 million related to reclamation, severance and other closure requirements, an increase from December 31, 2004 of \$0.4 million. This liability is covered by a combination of surety bonds, totaling \$32.0 million, and cash bonds totaling \$6.8 million, for a total reclamation surety, at March 31, 2005 of \$38.8 million. We have accrued what management believes is the present value of our best estimate of the liability as of March 31, 2005; however, it is possible that our obligation may change in the near or long term depending on a number of factors, including finalization of settlement terms, ruling from the courts and other factors.



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**Subsequent Events**

Subsequent to March 31, 2005, on April 29, 2005, Apollo Gold and Argonaut Mines, LLC, together with their respective Mexican subsidiaries, entered into an Amended and Restated Agreement by which they restructured their existing arrangement at the Huizopa project in Mexico. The restructuring transaction was completed on May 6, 2005. In return for Argonaut's agreement to restructure the existing arrangement at Huizopa, Apollo issued 1,000,000 common shares to Argonaut on May 6, 2005. Apollo's Mexican subsidiary is now the owner of the Mexican subsidiary of Argonaut which has a contractual interest in two of the concessions at the project. As a result of that transaction, Apollo's Mexican subsidiary no longer has any earn-in requirements pertaining to the Huizopa project, although it will still be responsible for the underlying payments to the landowner at the project, and the payments and performance of obligations required to maintain those concessions. If Apollo's Mexican subsidiary chooses not to go forward with the project, it is obligated to transfer a controlling interest in the Mexican subsidiary of Argonaut back to Argonaut.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our exposure to market risk includes, but is not limited to, the following risks: changes in interest rates on our investment portfolio, changes in foreign currency exchange rates and commodity price fluctuations.

**Interest Rate Risk**

We currently have minimal debt and thus no material interest rate exposure related to debt. When appropriate we invest excess cash in short-term debt instruments of the United States and Canadian Governments and their agencies on a fixed interest rate basis. Over time the rates received on such investments may fluctuate with changes in economic conditions. As a result our investment income may fall short of expectations during periods of lower interest rates. We estimate that given the cash balances expected during 2005, a one percent change in interest rates would result in a \$50,000 change in interest income. We may in the future actively manage our exposure to interest rate risk.

**Foreign Currency Exchange Rate Risk**

The price of gold is denominated in United States dollars and the majority of our revenues and expenses are denominated in United States dollars. To the extent there are fluctuations in local currency exchange rates against the dollar, the devaluation of a local currency is generally economically neutral or beneficial to the operation because local salaries and supplies will decrease against the US dollar revenue stream. Approximately 15% of our cash and cash equivalents were invested in Canadian dollar treasury notes at December 31, 2004. While we have realized exchange gains on such investments during 2004, a decrease in the value of the Canadian dollar versus the US dollar could result in exchange losses. We currently do not utilize market risk sensitive instruments to manage our exposure.

**Commodity Price Risk**

We are engaged in gold mining and related activities, including exploration, extraction, processing and reclamation. Gold is our primary product and, as a result, changes in the price of gold could significantly affect our results of operations and cash flows. According to current estimates, a \$10 change in the price of gold would result in a \$1.1 million change in pre-tax earnings and cash flows during 2005. We have in the past purchased puts/calls and we have 4,000 ounces of puts/calls outstanding at March 31, 2005. We may in the future more actively manage our exposure through hedging programs.

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**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Apollo maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Apollo's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) under the Exchange Act. Based upon, and as of the date of this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective, because of the material weaknesses discussed below. In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

We identified material weaknesses for the year ended December 31, 2004 in two areas. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. First, we have deficient inventory control and management processes and lack of segregation of procurement and accounting duties at our Florida Canyon Mine, primarily due to a lack of sufficient personnel at the Florida Canyon Mine. Second, we lack appropriate review of non-routine or complex accounting matters, relating accounting entries, and appropriate documentation, disclosure and application of Canadian and U.S. GAAP, primarily due to a lack of sufficient personnel with a level of technical accounting expertise commensurate with our reporting requirements.

We have hired additional personnel and will implement new controls in the second quarter of 2005 at Florida Canyon Mine. In addition, we have developed and will continue to refine policies and procedures for the review, identification, and documentation of non-routine, complex transactions and the application of accounting standards to ensure compliance with Canadian and U.S. GAAP.

**OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None

**ITEM 2. UNREGISTERED SALES OF EQUITY IN SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Title of Exhibit</b>  |
|--------------------|--|
| 31.1               | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act                             |
| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act                             |
| 32.1               | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act |

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**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**APOLLO GOLD CORPORATION**

Date: May 9, 2005

/s/ R. David Russell

R. David Russell, President and  
Chief Executive Officer

Date: May 9, 2005

/s/ Melvyn Williams

Melvyn Williams,  
Chief Financial Officer and Senior Vice President  
Finance and Corporate Development



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**Index to Exhibits**

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| 31.2               | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act                             |
| 32.1               | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act |