

APOLLO GOLD CORP  
Form 10-Q/A  
April 07, 2006

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

**FORM 10-Q/A  
Amendment No. 1**

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

For the quarterly period ended September 30, 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At November 7, 2005, there were 106,556,451 common shares of Apollo Gold Corporation outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this “Amendment”) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, was originally filed with the Securities and Exchange Commission (the “Commission”) on November 8, 2005 (the “Original Form 10-Q”). This Amendment reflects modifications that the Company has made in light of comments from the Staff of the Securities and Exchange Commission in connection with its review of the Company's Original Form 10-Q.

This Amendment is being filed to include additional geotechnical information regarding the pit wall instability at Montana Tunnels appearing in Item 2 on page 6 and to clarify the disclosure regarding changes in the Company's internal control over financial reporting appearing in Item 4 on page 17. In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed as exhibits to the Original Form 10-Q, have been re-executed as of the date of, and are re-filed as part of, this Amendment as Exhibits 31.1 and 31.2.

Except for the items described above or contained in the Amendment, this Amendment continues to speak as of the date of the Original Form 10-Q, and does not modify, amend, or update in any way the financial statements or any other item or disclosures in the Original Form 10-Q.

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**STATEMENTS REGARDING FORWARD LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains forward looking statements as defined in the *Private Securities Litigation Reform Act of 1995* with respect to our financial condition, results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditure, and exploration and development efforts. Words such as “expects,” “anticipates,” “intends,” “believes” and similar expressions identify forward looking statements. These statements include comments regarding:

- closing of and the closing date for the sale of our Nevada Assets;
- production and production costs;
- cash operating costs;
- total cash costs;
- grade;
- remediation efforts;
- exploration;
- development and drilling program;
- life of mine estimates;
- cash flows;
- future financing;
- use of funds;
- the ability to substitute collateral for the convertible debentures;
- expenditures;
- estimates of environmental liabilities;
- cash balances;
- our belief that certain deficiencies in our internal control and procedures have been remediated;
- our ability to fund our working capital and exploration and development expenditures; and
- factors impacting our results of operations.

These forward looking statements are subject to numerous risks, uncertainties and assumptions, including unexpected changes in business and economic conditions; significant increases or decreases in gold, silver, or lead prices; timing and amount of production changes in mining and milling costs; pit slides at our mining properties; results of current and future exploration activities; weather fluctuations; and other factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2004. We disclaim any obligation to update forward looking statements, whether as a result of new information, future events or otherwise.

#### **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. 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, to any one or more of them, as the context requires.

### **NON-GAAP FINANCIAL INFORMATION**

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 cost as found on the Consolidated Statements of Operations, less production royalty expenses and mining taxes but includes by-product credits for payable silver, lead and zinc.

The term “total cash costs” is equivalent to cash operating costs plus production royalties and mining taxes.

The term “total production costs” is equivalent to total cash costs plus non-cash 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.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 generally accepted accounting principles in Canada (Canadian GAAP). For a reconciliation to GAAP in the United States (U.S. GAAP), see Note 9 to the attached consolidated financial statements.

In this Form 10-Q, the terms "cash operating cost", "total cash cost" and "total production cost" are non-GAAP financial measures and are used on a per ounce of gold sold basis. Cash operating costs per ounce is equivalent to direct operating cost as found on the Consolidated Statements of Operations, less production royalty expenses and mining taxes but includes by-product credits for payable silver, lead, and zinc production. Total cash costs is equivalent to cash operating costs plus production royalties and mining taxes. The term "total production costs" is equivalent to total cash costs plus non-cash costs including depreciation and amortization.

The Montana Tunnels results of operations have been restated for all periods presented December 31, 2004 and earlier to reflect a change in accounting policy with respect to stripping costs.

Additionally, certain of the comparative figures have been reclassified to conform with the current period presentation. In particular, the results of operations of the Florida Canyon Mine and the Standard Mine for the three and nine months ended September 30, 2004 have been classified as discontinued operations and therefore the table below reflects Montana Tunnels statistics only.

### RECONCILIATION OF CASH OPERATING AND TOTAL PRODUCTION COSTS PER OUNCE

| (\$ in thousands)                                     | Three months ended<br>September 30, |                       | Nine months ended<br>September 30, |                       |
|---|-------------------------------------|-----------------------|------------------------------------|-----------------------|
|   | 2005                                | 2004<br>(as restated) | 2005                               | 2004<br>(as restated) |
| Gold ounces sold                                      | 14,104                              | 4,967                 | 39,073                             | 21,653                |
| Direct operating costs                                | \$ 14,162                           | \$ 12,627             | \$ 40,273                          | \$ 39,815             |
| Less: Mining taxes, royalty expenses                  | 345                                 | 212                   | 932                                | 685                   |
| By-product credits                                    | 6,929                               | 5,351                 | 19,280                             | 16,918                |
| Cash operating cost                                   | 6,888                               | 7,064                 | 20,061                             | 22,212                |
| Cash operating cost per ounce                         | \$ 488                              | \$ 1,422              | \$ 513                             | \$ 1,026              |
| Cash operating costs                                  | 6,888                               | 7,064                 | 20,061                             | 22,212                |
| Add: Mining taxes, royalty expenses                   | 345                                 | 212                   | 932                                | 685                   |
| Total cash costs                                      | 7,233                               | 7,276                 | 20,993                             | 22,897                |
| Total cash cost per ounce                             | \$ 513                              | \$ 1,465              | \$ 537                             | \$ 1,057              |
| Total cash costs                                      | 7,233                               | 7,276                 | 20,993                             | 22,897                |
| Add: Depreciation & amortization<br>(operations only) | 615                                 | 646                   | 1,885                              | 1,823                 |
| Total production costs                                | 7,848                               | 7,922                 | 22,878                             | 24,720                |
| Total production cost per ounce                       | \$ 556                              | \$ 1,595              | \$ 586                             | \$ 1,142              |

We have included total cash cost and cash operating cost information to provide investors with information about the cost structure of our mining operation. We use this information for the same purpose and for monitoring the performance of our operation. This information differs from measures of performance determined in accordance with

Canadian and U.S. GAAP and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian and U.S. 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.



The following presents a discussion of the financial condition and results of operations of the Company for the three and nine months ended September 30, 2005 and September 30, 2004, respectively.

## **BACKGROUND AND RECENT DEVELOPMENTS**

We are principally engaged in the exploration, development and mining of gold. We own Black Fox, a development property located east of Timmins, Ontario, Canada. We also own a concession and the right to acquire additional concessions to the Huizopa exploration property in Mexico. In addition, we own and operate the Montana Tunnels Mine, a gold, silver, lead and zinc open pit mine, located near Helena, Montana and the Diamond Hill Mine, currently under care and maintenance, also located in the State of Montana.

### **Recent Events.**

#### **Nevada Assets**

On October 17, 2005, we entered into a Stock Purchase Agreement (the "Agreement") with Jipangu Inc. ("Jipangu"), a Delaware corporation and wholly owned subsidiary of Jipangu International Inc., a Japanese corporation ("Jipangu Parent"), for the sale of all of the issued and outstanding stock of Florida Canyon Mining, Inc., Standard Gold Mining, Inc. and Apollo Gold Exploration, Inc. for \$14.0 million (the "Mines Sale"), subject to certain conditions. In addition, we entered into a Subscription Agreement with Jipangu for a \$3.5 million private placement (the "Private Placement"), pursuant to which Jipangu would purchase up to 11,650,000 units of Apollo priced at Cdn\$0.35 per unit, with each unit consisting of one common share of Apollo and 0.17167 of a warrant (for a total of up to 2,000,000 warrants), with each whole warrant exercisable for two years at Cdn\$0.39 for one common share of Apollo.

If the Private Placement were completed and the warrants were exercised, Jipangu would own in the aggregate 19.7% of Apollo's common shares based on 106,556,451 common shares outstanding as of November 7, 2005.

The closing of the Mines Sale under the Agreement is subject to certain conditions and we expect that the Mines Sale will close on November 18, 2005. If the Mines Sale does not close by December 1, 2005, either Apollo or Jipangu may terminate the Agreement, provided that the terminating party has not breached the agreement in a manner that has prevented the closing. The Private Placement is conditional upon the completion of the Mines Sale, and would not close until the 61st day after the closing of the Mines Sale. If the Mines Sale is not completed, Jipangu would have the option to invest up to \$3.5 million in a private placement under certain circumstances.

#### **Black Fox**

As a result of the contemplated Mines Sale, we are focusing and concentrating our resources on the development of the Black Fox project which we believe is the future of the Company. An additional 30 underground diamond drill holes were completed during the third quarter 2005 bringing the total number of underground holes to date to 335, with the total number of drill holes completed, including surface holes, to 784 at September 30, 2005. We expect to complete the current drilling program in November 2005 and the Company has commenced work on updating our reserve calculations at Black Fox, which will be published first quarter 2006.

#### **Montana Tunnels**

The Montana Tunnels mine was acquired by Apollo in the second quarter 2002 and following a four month stripping program of waste rock removal, the mine commenced limited production of ore in October 2002, with full commercial production recommencing in April 2003. Since that time the mine has experienced pit wall problems that have resulted in periodic disruption of production and several significant changes to mining plans, including in late 2003 the commencement of the phase two stripping program to remove 25 million tons of material that slid off the

southwest pit wall. This strip program was completed at the end of 2004 and the mine was then expected to have a 3 year mine life before a further pit expansion program was required. The result of these interruptions to normal operations has meant that the mine has failed to meet production expectations or forecasted cash costs per ounce of gold since recommencing operation in 2003. We monitor the wall movement on a daily basis and the movement of the wall above the haul ramp, although steady throughout 2004 and the first quarter of 2005, was consistent with the type of movement experienced historically and the Company believes it is manageable.

During May and June 2005 the mine again encountered production problems caused by the deterioration of the haul ramp leading to periodic ramp closures as a result of increased wall activity caused by excessive continuous rainfall, with June 2005 recorded as the third wettest month on record for Jefferson County. In June 2005 the mine plan was again revised to allow a two week shutdown to allow the mine to unload some upper slopes of the open pit and improve the haulage ramp. The two weeks of remediation work was carried out in July 2005, as planned, and production at the mine improved during August and September 2005. However, mining was suspended mid October 2005 as a result of pit wall instability in September and early October 2005 along the upper East Wall of the open pit. The instability is the result of a complex interaction between relatively weak, altered Lowland Creek Volcanic (LCV) to rock units, steeply dipping faults and joints, and occasional zones of relatively less altered and more competent sub-vertical rock zones. Toppling type displacement patterns were evident where the more resistant rock outcrops within weak, sheared LCV rock units on the upper East Wall. The pattern of displacements that occurred during September and October 2005 was consistent with previous slope performance when active mining unloads the toe of the slope.

The on-going slope deformations resulted in too steep a slope between the ramps and weakening of the rock mass, creating localized instabilities along the haul ramp that reduced ramp width and increased the frequency of rock falls. We therefore decided on October 22, 2005, for safety reasons, to cease mining and retain a third party consultant to review mine design criteria and determine scenarios under which mining the pit could safely resume. In the meantime, we plan to continue milling low grade ores from stockpiled material. Although we are currently unable to predict the effect on our financial results, we do not expect that mining low grade ores from stockpiled material will be cash positive, but we do expect that the revenue generated from milling will pay for the variable cost of production and contributes to the fixed costs of the mine.

### Summary of Production Results and Total Cash Costs per Ounce from Continuing Operations

#### Production from Continuing Operations & Metals Price Averages

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

|   | Nine months<br>ended<br>September 30,<br>2005 | Year Ended<br>December 31,<br>2004 | Year Ended<br>December 31,<br>2003 |
|---|---|------------------------------------|------------------------------------|
| Production:                             |   |                                    |                                    |
| Gold (ounces)                           | 39,073  | 33,743                             | 44,124                             |
| Silver (ounces)                         | 421,479                                       | 970,751                            | 411,176                            |
| Lead (pounds)                           | 9,273,121                                     | 10,064,265                         | 10,843,184                         |
| Zinc (pounds)                           | 19,800,021                                    | 26,222,805                         | 21,792,452                         |
| Average metal prices:                   |   |                                    |                                    |
| Gold - London bullion mkt. (\$/ounce)   | \$ 431  | \$ 409                             | \$ 364                             |
| Silver - London bullion mkt. (\$/ounce) | \$ 7.06                                       | \$ 6.66                            | \$ 4.88                            |
| Lead - LME (\$/pound)                   | \$ 0.43                                       | \$ 0.40                            | \$ 0.23                            |
| Zinc - LME (\$/pound)                   | \$ 0.59                                       | \$ 0.48                            | \$ 0.38                            |

For the three months ended September 30, 2005, gold production from continuing operations increased 184% to 14,104 ounces, zinc production increased 98% to 7,400,000 lbs, and lead production increased 61% to 3,389,000 lbs from 4,967 ounces of gold, 3,738,000 lbs of zinc, and 2,110,000 lbs of lead for the three months ended September 30, 2004, respectively. For the nine months ended September 30, 2005, gold production from continuing operations increased 80% to 39,073 ounces, zinc production increased 6% to 19,800,000 lbs, and lead production increased 33%

to 9,273,000 lbs from 21,653 ounces of gold, 18,753,000 lbs of zinc, and 6,978,000 lbs of lead for the nine months ended September 30, 2004, respectively.

For the three months ended September 30, 2005, total cash cost per ounce of gold from continuing operations decreased 65% to \$513 from \$1,465 for the three months ended September 30, 2004. Production in 2004 was significantly reduced due to a major stripping program and the processing of lower grade and below reserve grade ores. For the nine months ended September 30, 2005, total cash cost per ounce of gold from continuing operations decreased 49% to \$537 from \$1,057 for the nine months ended September 30, 2004. The improvement in cash cost per ounce is due to higher production of metals as a result of better grades of ore and higher prices of zinc and lead. However, the total cash cost per ounce still remained above the selling price per ounce of gold primarily due to poor mining performance, resulting from ramp access and pit wall problems.

## MATERIAL CHANGES IN RESULTS OF OPERATIONS

### Three Months Ended September 30, 2005 Compared to the Three Months Ended September 30, 2004

#### Revenue from the Sale of Minerals from Continuing Operations.

Revenues from continuing operations for the three months ended September 30, 2005 increased 81% to \$13.4 million from \$7.4 million for the same period in 2004. Revenues from silver, zinc and lead for the three months ended September 30, 2005 increased 28% to \$6.9 million from \$5.4 million for the three months ended September 30, 2004. Revenue from gold sales for the three months ended September 30, 2005 were \$6.4 million, (48% of total revenue) compared to \$2.0 million (28% of the total revenue) for the same period 2004. Revenue from zinc at \$4.7 million for the three months ended September 30, 2005 accounted for 35% of total revenues. The average price received for gold per ounce for the three months ended September 30, 2005 increased 11% to \$455 from \$411 for the three months ended September 30, 2004. The increase in revenues is due to increased production and higher prices of zinc and lead.

#### Continuing Operations - Montana Tunnels.

The following presents the key statistics for the Montana Tunnels operation for the three months ended September 30, 2005 and 2004, respectively:

|                                    | Three months ended<br>September 30, |                       |
|------------------------------------|-------------------------------------|-----------------------|
|                                    | 2005                                | 2004<br>(as restated) |
| Tons mined                         | 4,217,617                           | 9,789,823             |
| Tons milled                        | 1,299,610                           | 1,514,690             |
| Gold grade oz/ton                  | 0.0150                              | 0.0059                |
| Zinc grade %                       | 0.42                                | 0.20                  |
| Strip ratio                        | 3.2:1                               | 6.5:1                 |
| Production payable:                |                                     |                       |
| Gold ounces                        | 14,104                              | 4,967                 |
| Silver ounces                      | 129,736                             | 425,351               |
| Lead pounds                        | 3,389,443                           | 2,110,786             |
| Zinc pounds                        | 7,401,636                           | 3,738,427             |
| Total cash costs per ounce         | \$ 513                              | \$ 1,465              |
| Total production costs per ounce   | \$ 556                              | \$ 1,595              |
| Total revenue (\$ millions)        | \$ 13.4                             | \$ 7.4                |
| Capital expenditures (\$ millions) | \$ 0.1                              | \$ 1.1                |

Due to the lower strip ratio required, the total mined tonnage during the three months ended September 30, 2005 was 4,217,617 tons compared to 9,789,823 tons mined in the same period of 2004, a reduction of 57%. Of the total mined

for the three months ended September 30, 2005, 1,299,610 tons were ore, resulting in a strip ratio of 3.2:1 for the quarter, which was higher than expected for the three months ended September 30, 2005, but lower than the strip ratio for the three months ended September 30, 2004 of 6.5:1.

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The improvement in the third quarter 2005, compared to the third quarter 2004, in production and total cash cost per ounce is a result of higher grades of ore, particularly gold (0.0150 oz/ton compared to 0.0059 oz/ton) and zinc (0.42% compared to 0.20%), the combined revenues of which account for 83% of total revenues. This improvement in revenue was partially offset by increased direct operating costs.

### **Operating Expenses.**

*Direct Operating Costs.* Direct operating costs, which includes mining costs, processing costs, and smelting and refining charges, for the three months ended September 30, 2005 increased 13% to \$14.2 million from \$12.6 million for the three months ended September 30, 2004, although there was a decrease in mined tons of 57% to 4,217,617 tons from 9,789,823 tons for the three months ended September 30, 2004. The mining cost per ton for the three months ended September 30, 2005 was \$1.54 compared to \$0.66 for the three months ended September 30, 2004. The two primary reasons for the increase in mining costs are: (i) in 2004 the majority of the material mined was waste from the upper benches of the pit requiring shorter uphill haul distances and therefore better efficiencies when compared to 2005, where mining was mainly from the pit bottom, and (ii) the significant increases in the prices of our mining consumables, such as diesel and tires, both of which have increased by over 100% since September 30, 2004. In addition to mining costs, the smelter charges for the three months ended September 30, 2005 increased 103% to \$3,027,000 from \$1,489,000 for the three months ended September 30, 2004, primarily due to the increased mine production of lead and zinc concentrates being processed by the smelter, along with a higher smelting charge per ton of concentrate due to the increase in the price of lead and zinc. Our smelting contract has a price participation clause which provides that as the prices of lead and zinc increase the benefit gained by the mine is shared with the smelter and vice-versa. The average price of zinc for the three months ended September 30, 2005 was \$0.59/lb compared to \$0.48/lb for the three months ended September 30, 2004.

*Depreciation and Amortization.* Depreciation and amortization expenses were \$0.7 million and \$0.7 million for the three months ended September 30, 2005 and 2004, respectively.

*General and Administrative Expenses.* General and administrative expenses were \$0.9 million and \$1.1 million for the three months ended September 30, 2005 and 2004, respectively.

*Stock Based Compensation.* In January 2004, the Company adopted the fair value method of accounting for stock options as set out in CICA Handbook section 3870, Stock-Based Compensation and Other Stock-Based Payments. Share-based compensation was \$171,000 and \$388,000 for the three months ended September 30, 2005 and 2004, respectively.

*Accretion Expense.* Accrued accretion expense was \$242,000 compared to \$479,000 for the three months ended September 30, 2005 and 2004, respectively, primarily due to accrued site closure costs at the Montana Tunnels mine.

*Exploration and Business Development Expense.* Expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.2 million and \$0.5 million for the three months ended September 30, 2005 and 2004, respectively. This decrease in expenditures is due to decreased exploration activities at our Huizopa property in Mexico.

*Total Operating Expenses.* As a result of these expense components, our total operating expenses increased 3% to \$16.3 million for the three months ended September 30, 2005 from \$15.8 million for the three months ended September 30, 2004.

*Interest Income and Interest Expense.* We realized interest income of \$105,000 during the three months ended September 30, 2005 and interest expense of \$747,000 in the same period compared to \$10,000 in interest income and \$30,000 in interest expense during the three months ended September 30, 2004. The interest income increase is partially due to increased income earned on reclamation bonding deposits. The increase in interest expense is due to accretion on the convertible debentures issued in the fourth quarter of 2004.

*Foreign Exchange Gain (Loss).* There was a foreign exchange gain of \$5,000 for the three months ended September 30, 2005 compared to a \$79,000 loss during the three months ended September 30, 2004 from cash balances held in Canadian dollars. Apollo utilizes United States dollars as its functional and reporting currency.

### Loss from Continuing Operations.

As a result of the foregoing, the Company incurred a loss from continuing operations of \$3.6 million, or \$0.03 per share, for the three months ended September 30, 2005, as compared to a loss of \$8.5 million, or \$0.11 per share, for the three months ended September 30, 2004.

### Loss from Discontinued Operations.

During the second quarter, the Company adopted a plan to dispose of its Nevada Assets. For the three months ended September 30, 2005, we recorded an impairment of \$3.9 million related to the Nevada Assets. This component, when added to the results from the discontinued operations means that the Company incurred a total loss for the three months ended September 30, 2005 of \$3.6 million, or \$0.03 per share, as compared to a loss of \$2.8 million, or \$0.03 per share, for the three months ended September 30, 2004.

### Discontinued Operations.

*Florida Canyon.* Florida Canyon's gold production decreased 58% to 6,169 ounces at a total cash cost of \$409 per ounce for the three months ended September 30, 2005 from 14,820 ounces of gold at a total cash cost of \$406 per ounce for the three months ended September 30, 2004, primarily due to cessation of mining on March 1, 2005.

We had planned to mine throughout 2005, however, management determined at the end of February 2005 to focus its personnel 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 at Florida Canyon by leaching down the gold contained within the existing pad.

|                                    | Three months ended<br>September 30, |                       |
|------------------------------------|-------------------------------------|-----------------------|
|                                    | 2005                                | 2004<br>(as restated) |
| Tons mined                         | 0                                   | 4,235,978             |
| Gold production - ounces           | 6,169                               | 14,820                |
| Silver production - ounces         | 3,054                               | 12,154                |
| Total cash costs per ounce         | \$ 409                              | \$ 406                |
| Total production costs per ounce   | \$ 409                              | \$ 447                |
| Total revenue (\$ millions)        | \$ 2.7                              | \$ 5.0                |
| Capital expenditures (\$ millions) | \$ 0.0                              | \$ 0.7                |

There was no net gain or loss for the three months ended September 30, 2005 as compared to a \$646,000 loss for the three months ended September 30, 2004, due to the last of the Standard Bank put/call commodity contracts being completed in April 2005.





*Standard Mine.* Standard Mine entered into commercial production on June 1, 2005. Loading of ore onto the heap leach pad continued throughout the third quarter 2005 enabling the expansion of the area under leach and therefore improved production of gold. Standard Mine produced 8,432 ounces of gold during the three months ended September 30, 2005 at a total cash cost of \$387 per ounce.

Following are key operating statistics at the Standard Mine for the third quarter of 2005 compared to 2004:

|                                    | Three months ended<br>September 30, |        |                      |
|------------------------------------|-------------------------------------|--------|----------------------|
|                                    | 2005                                | 2004   | Not in<br>production |
| Ore mined - tons                   | 1,428,103                           |        |                      |
| Waste mined - tons                 | 1,136,718                           |        |                      |
| Total tons mined                   | 2,564,821                           |        |                      |
| Strip ratio                        | 0.8:1                               |        |                      |
| Grade of gold - ozs/ton            | 0.0151                              |        |                      |
| Gold production - ounces           | 8,432                               |        |                      |
| Silver production - ounces         | 21,901                              |        |                      |
| Total cash costs per ounce         | \$ 387                              |        |                      |
| Total production costs per ounce   | \$ 387                              |        |                      |
| Total revenue (\$ millions)        | \$ 3.9                              |        |                      |
| Capital expenditures (\$ millions) | \$ 0.5                              | \$ 1.9 |                      |

During the three months ended September 30, 2005, 2,565,000 tons were mined, of which 1,428,000 tons were ore with the balance being waste, resulting in a strip ratio of 0.8:1. This strip ratio is equal to the average expected for the year 2005. All ore tons were placed on the pad at an average grade of 0.0151 ounces per ton.

Capital expenditure for the third quarter 2005 was \$0.5 million compared to \$1.9 million in the third quarter of 2004. This lower expenditure is because the mine was under construction in 2004.

#### **NINE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2004**

##### **Revenue from the Sale of Minerals from Continuing Operations.**

Revenues from continuing operations for the nine months ended September 30, 2005 increased 42% to \$36.3 million from \$25.5 million for the same period in 2004. Revenues from silver, zinc and lead for the nine months ended September 30, 2005 increased 14% to \$19.3 million from \$16.9 million for the nine months ended September 30, 2004. Revenue from gold sales for the nine months ended September 30, 2005 were \$17.0 million, (47% of total revenue) compared to \$8.6 million (34% of the total revenue) for the same period 2004. Revenue from zinc at \$12.3 million for the nine months ended September 30, 2005 accounted for 34% of total revenues. The average price received for gold per ounce for the nine months ended September 30, 2005 increased 9% to \$435 from \$398 for the nine months ended September 30, 2004. The increase in revenues is primarily due to increased production due to higher prices of zinc and lead.

**Continuing Operations - Montana Tunnels.**

The following presents the key production statistics for the Montana Tunnels operation for the nine months ended September 30, 2005 and 2004, respectively.

|                                    | Nine months ended<br>September 30, |                       |
|------------------------------------|------------------------------------|-----------------------|
|                                    | 2005                               | 2004<br>(as restated) |
| Tons mined                         | 13,606,591                         | 27,578,156            |
| Tons milled                        | 3,965,389                          | 3,780,791             |
| Production:                        |                                    |                       |
| Gold grade oz/ton                  | 0.014                              | 0.009                 |
| Zinc grade %                       | 0.36                               | 0.38                  |
| Gold ounces                        | 39,073                             | 21,653                |
| Silver ounces                      | 421,479                            | 769,020               |
| Lead pounds                        | 9,273,121                          | 6,978,014             |
| Zinc pounds                        | 19,800,021                         | 18,753,013            |
| Total cash costs per ounce         | \$ 537                             | \$ 1,057              |
| Total production costs per ounce   | \$ 586                             | \$ 1,142              |
| Total revenue (\$ millions)        | \$ 36.3                            | \$ 25.5               |
| Capital expenditures (\$ millions) | \$ 0.2                             | \$ 2.2                |

Due to the lower strip ratio planned, the total mine tonnage moved during the nine months ended September 30, 2005, was 13,606,591 tons compared to 27,578,156 tons mined for the nine months ended September 30, 2004. Of the total mined in the first nine months of 2005, 4,038,000 were ore giving a strip ratio for the year-to-date of 2.4:1 which was slightly higher than expected. This compares to ore mined in the first nine months of 2004 of 4,076,000 tons for a strip ratio of 5.8:1.

The higher total cash costs in 2004 are a result of the implementation of the FASB recommendation on stripping costs.

**Operating Expenses.**

*Direct Operating Expenses.* Direct operating costs, which includes mining costs, processing costs and smelting and refining charges, for the nine months ended September 30, 2005 increased 1% to \$40.3 million from \$39.8 million for the nine months ended September 30, 2004, although there was a decrease in mined tonnage of 51% to 13,606,591 tons from 27,578,156 tons for the nine months ended September 30, 2004. These higher than expected costs were a result of operational problems encountered in the mine and higher unit costs of operational supplies when compared to 2004. The operational problems were weather related problems in the second quarter 2005, resulting in problems with access to the ramp and lower tons being mined. The higher unit costs of operational supplies are a result of the significant increase in the cost of consumables such as diesel and tires, both of which have increased by over 100% during the past twelve months.

*Depreciation and Amortization Expenses.* Depreciation and amortization expenses were \$2.0 million for the nine months ended September 30, 2005 as compared to \$1.9 million for the same period 2004.

*General and Administrative Expenses.* General and administrative expenses were \$3.7 million for the nine months ended September 30, 2005 as compared to \$4.3 million from the first nine months ended September 30, 2004 primarily due to no management bonuses being paid in 2005.

*Stock Based Compensation.* In January 2004 the Company adopted the fair value method of accounting for stock options as set out in CICA Handbook section 3870, Stock-Based Compensation and Other Stock-Based Payments. Share-based compensation was \$0.5 million for both the nine months ended September 30, 2005 and the same period of 2004.

*Accretion Expense.* Accrued accretion expense was \$0.6 million for the nine months ended September 30, 2005 compared to \$0.6 million for the same period of 2004, due to accrued site closure costs at the Montana Tunnels mine.

*Expenses for Exploration and Development.* Expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.7 million and \$0.8 million for the nine months ended September 30, 2005 and 2004, respectively.

*Total Operating Expenses.* As a result of these expense components, our operating expenses totaled approximately \$47.9 million for the nine months ended September 30, 2005 and 2004, respectively.

*Interest Income and Interest Expense.* Apollo realized interest income of \$278,000 during the nine months ended September 30, 2005 and interest expense of \$1,940,000 in the same period compared to \$261,000 in interest income and \$113,000 in interest expense during the nine months ended September 30, 2004. The increase in interest expense is due to accretion on the convertible debentures issued in the fourth quarter of 2004.

*Gain on Sale of Property, Plant and Equipment.* A \$1.3 million gain on sale of spare mining equipment at Montana Tunnels was realized during the first nine months ended September 30, 2005.

*Foreign Exchange Loss.* There was a foreign exchange loss of \$28,000 for the nine months ended September 30, 2005 compared to a \$567,000 loss during the nine months ended September 30, 2004 from cash balances held in Canadian dollars. Apollo utilizes United States dollars as its functional and reporting currency.

#### **Loss from Continuing Operations.**

As a result of the foregoing, the Company incurred a loss from continuing operations of \$12.0 million, or \$0.12 per share, for the nine months ended September 30, 2005, as compared to a loss of \$22.7 million, or \$0.29 per share, for the nine months ended September 30, 2004.

#### **Loss from Discontinued Operations.**

During the second quarter, the Company adopted a plan to dispose of its Nevada Assets. For the nine months ended September 30, 2005, we recorded a total impairment of \$8.4 million related to the Nevada Assets. This impairment when added to the results from the discontinued operations meant that the Company incurred a total loss for the nine months ended September 30, 2005 of \$6.0 million, or \$0.06 per share, as compared to a loss of \$2.5 million, or \$0.03 per share, for the nine months ended September 30, 2004.

#### **Discontinued Operations.**

*Florida Canyon.* At Florida Canyon, production of gold decreased by 55% to 24,765 ounces at a total cash cost of \$380 per ounce for the nine months ended September 30, 2005 from 55,649 ounces of gold at a total cash cost of \$354 per ounce for the nine months ended September 30, 2004 primarily due to the cessation of mining on March 1, 2005. The total cash cost for the nine months ended September 30, 2005 of \$380 per ounce includes a non cash charge from leach pad inventory of \$225 per ounce of gold.

We had planned to continue mining at Florida Canyon throughout 2005, however, management determined at the end of February 2005 to focus its personnel 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 at Florida Canyon.



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

|                                    | <b>Nine months ended<br/>September 30,</b> |                              |
|------------------------------------|--|------------------------------|
|                                    | <b>2005</b>                                | <b>2004</b><br>(as restated) |
| Tons mined                         | 960,292                                    | 17,102,792                   |
| Gold production - ounces           | 24,765                                     | 55,649                       |
| Silver production - ounces         | 15,583                                     | 49,368                       |
| Total cash costs per ounce         | \$ 380                                     | \$ 354                       |
| Total production costs per ounce   | \$ 412                                     | \$ 390                       |
| Total revenue (\$ millions)        | \$ 9.5                                     | \$ 20.1                      |
| Capital expenditures (\$ millions) | \$ 0.0                                     | \$ 1.1                       |

A \$3.6 million gain on sale of spare mining equipment at Florida Canyon was realized during the nine months ended September 30, 2005.

There was a \$38,000 gain for the nine months ended September 30, 2005 for the commodities contract with Standard Bank as compared to a \$516,000 gain for the nine months ended September 30, 2004. This commodities contract was finished in April 2005.

*Standard Mine.* The Standard Mine continued loading ore onto the heap leach pad, leaching gold and expanding the area under leach during the first nine months of 2005.

The Standard Mine entered into commercial production on June 1, 2005. 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 five months of 2005. The Standard Mine produced 11,241 ounces of gold during the four months June to September at a total cash cost of \$380 per ounce. For the first five months of 2005 the mine produced 6,731 ounces of gold, the revenue which was offset against the operating expenses and the net sum treated as capital expenditures.

Following are key operating statistics at the Standard Mine for the first nine months of 2005 compared to 2004:

|                                    | <b>Nine months ended<br/>September 30,</b> |                                     |
|------------------------------------|--|-------------------------------------|
|                                    | <b>2005</b>                                | <b>2004</b><br>Not in<br>production |
| Ore mined - tons                   | 1,887,360                                  |                                     |
| Waste mined - tons                 | 1,675,846                                  |                                     |
| Total tons mined                   | 3,563,206                                  |                                     |
| Strip ratio                        | 0.9:1                                      |                                     |
| Grade of gold ozs/ton              | 0.0166                                     |                                     |
| Gold production - ounces           | 11,241                                     |                                     |
| Silver production - ounces         | 30,916                                     |                                     |
| Total cash costs per ounce         | \$ 380                                     |                                     |
| Total production costs per ounce   | \$ 380                                     |                                     |
| Total revenue (\$ millions)        | \$ 5.2                                     |                                     |
| Capital expenditures (\$ millions) | \$ 2.9                                     | \$ 5.1                              |





During the first nine months of 2005, tons mined were slightly above forecast at 3,563,206 tons of which 1,887,360 tons were ore with the balance being waste giving a strip ratio of 0.9:1. This strip ratio was slightly higher than the average expected for the year 2005 of 0.8:1. All ore tons were placed on the pad at an average grade of 0.0166 ounces per ton.

Capital expenditures for the first nine months of 2005 were \$2.9 million, \$2.2 million lower than the same period 2004.

#### **MATERIAL CHANGES IN LIQUIDITY**

To date, we have funded our operations primarily through issuances of debt and equity securities. At September 30, 2005, cash and cash equivalents were \$0.3 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 \$6.7 million, investment activities of \$3.3 million plus a reduction of capital lease debt of \$0.8 million. These outflows were offset by funds from proceeds on disposal of property, plant and equipment of \$2.0 million and sale of common shares of \$5.9 million.

Investing activities used \$3.3 million of cash during the nine months ended September 30, 2005, compared to \$13.8 million in the same period 2004. Capital expenditures in the first nine months were \$4.7 million of which \$4.4 million were for the further development of the Black Fox project. In addition to this capital expenditure, \$1.6 million was invested in the restricted cash account as part of the Montana Tunnels reclamation liability.

We intend to deposit \$10.9 million of the \$14.0 million we expect to receive in the fourth quarter from the sale of the Nevada Assets as substitute collateral for our \$8.73 million convertible debentures, which are currently secured by the Nevada Assets. Subject to certain conditions, we could replace this future cash collateral with Black Fox as security for the convertible debentures. By the end of the second quarter of 2006, we expect we will be able to meet those conditions, resulting in additional funds being available to the Company for further development of Black Fox, exploration at Huizopa and other general corporate purposes.

We believe that our current funds together with the October 2005 \$2.5 million cash advance on the purchase price for the Nevada Assets, the remaining \$0.6 million we expect to receive for the sale of the Nevada Assets, net of cash used as cash collateral for the debentures, and the contemplated \$3.5 million private placement investment by Jipangu will be sufficient to fund our working capital and exploration and development expenditures for the next twelve months. In addition, we may raise additional financing from the sale of debt or equity securities which may include Canadian flow-through financing to fund a portion of our exploration expenditures at Black Fox. Exploration and development expenditures for Huizopa and Black Fox are estimated at \$1.0 million for the last quarter of 2005. If we do not sell the Nevada Assets or successfully generate cash flow from our mines, we would be required to secure additional financing to enable us to continue as a going concern and undertake our expenditure programs.

Financing activities for the nine months ended September 30, 2005 included (1) completing in January 2005 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 warrants of \$0.2 million, and (2) completing on June 3, 2005, the sale to Jipangu of 10,000,000 common shares at \$0.32 per share, proceeds from which amounted to \$3.2 million, net of expenses of \$32,000.

## **DIFFERENCES BETWEEN CANADIAN AND U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

The Company reports under Canadian GAAP and reconciles to U.S. GAAP. The application of U.S. GAAP has a significant effect on the net loss and net loss per share. For a detailed explanation see Note 9 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.

On March 30, 2005, the Financial Accounting Standards Board ("FASB") ratified the consensus of the EITF Issue 04-6 that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced during the period that the stripping costs are incurred.

In the first quarter of 2005 and prior periods, Apollo deferred or accrued stripping costs incurred during production, as appropriate, and charged these costs to operations on the basis of the estimated average stripping ratio for Montana Tunnels. Commencing in the second quarter of 2005, Apollo changed its accounting policy under Canadian GAAP and U.S. GAAP with respect to stripping costs to be consistent with the consensus reached by the EITF, on the basis that the consensus results in a more reliable, relevant and consistent application of GAAP. This change has been applied retrospectively by restating prior periods. The effect of this change was to increase the deficit at January 1, 2004 by \$24,033,000 and to increase the net loss for the year ended December 31, 2004 by \$12,818,000 (\$0.16 per share). The net loss for the three months and nine months ended September 30, 2004 increased by \$4,097,000 (\$0.05 per share) and \$11,446,000 (\$0.15 per share), respectively, as a result of this change.

## **CONTRACTUAL OBLIGATIONS**

The Company has several outstanding equipment leases and financings. As of September 30, 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 payment to the original owners of the property due if and when the mine reaches an average production level of 300 tonnes of ore per day over a 30 day period.

## **ENVIRONMENTAL**

As of September 30, 2005, we have accrued \$12.4 million related to reclamation, severance and other closure requirements at Montana Tunnels, an increase of \$0.6 million from December 31, 2004. This liability is covered by a combination of surety bonds, totaling \$15.8 million, and cash bonds totaling \$1.3 million, for a total reclamation

surety, at September 30, 2005 of \$17.1 million. We have accrued what management believes is the present value of our best estimate of the liability as of September 30, 2005; however, it is possible that our obligation may change in the near or long term depending on a number of factors.

#### **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.

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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, related 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.

Not all of these deficiencies have been fully remediated. The first of these deficiencies relates primarily to staffing at our Nevada Assets, assets held for sale. As of the end of September 2005 we have implemented new inventory procedures and have added staff to our warehouse. As a result of these measures we believe the deficiencies with regard to the inventory control have been remediated. Additional steps have been taken to improve the effectiveness of the internal controls with regard to the management processes and a lack of segregation of procurement and accounting duties at our Nevada Assets. However, our internal audit team has not fully monitored and tested these controls because the assets are under contract for sale. Therefore, the Company believes these significant deficiencies in aggregate remain significant enough to be reported as a "material weakness" in our financial controls as defined in AS No. 2. We will continue to monitor the effectiveness of our internal controls and make further changes our management determines appropriate.

The second material weakness relates to lack of 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. In the second quarter, we established a Financial Disclosure Policy Committee to review all non-routine accounting matters and disclosure and application of Canadian and U.S. GAAP, added additional technical accounting expertise to the accounting staff, and implemented formal policies addressing the internal controls over non-routine or complex accounting matters, accounting entries, appropriate documentation, and disclosures. During the third quarter, we began our evaluation of these controls and procedures and in the fourth quarter we will continue our evaluation to determine if these controls are operating effectively.

We intend to continue to monitor our internal controls, and if further improvements or enhancements are identified, we will take steps to implement such improvements or enhancements. As a result of the changes disclosed above, there were changes in our internal control over financial reporting, which have materially affected, or are reasonably likely to materially affect, such internal controls.

**PART II OTHER INFORMATION**

**ITEM 6. EXHIBITS**

**Exhibit Title of Exhibit**  
**No.**

- 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

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**SIGNATURES**

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

**APOLLO GOLD CORPORATION**

Date: April 6, 2006

By: /s/ R. DAVID RUSSELL

\_\_\_\_\_  
R. David Russell, President and  
Chief Executive Officer

Date: April 6, 2006

By: /s/ MELVYN WILLIAMS

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

**Index to Exhibits**

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