

Edgar Filing: APOLLO GOLD CORP - Form 10-Q

APOLLO GOLD CORP  
Form 10-Q  
August 16, 2004

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 June 30, 2004  
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.)
---	--

4601 DTC BLVD, SUITE 750  
DENVER, COLORADO 80237  
(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  [X] [No]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b2 of the Exchange Act). Yes  [ ] No  [X]

At July 25, 2004, there were 79,619,461 common shares of Apollo Gold Corporation outstanding.

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### STATEMENTS REGARDING FORWARD LOOKING INFORMATION

This report, including the Notes to Unaudited Consolidated Financial Statements, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended. Forward-looking statements include, without limitation, with respect to our financial condition, results of operations, production, costs, start-up of the Standard Mine, completing stripping at Montana Tunnels, business prospects, plans, objectives, goals, strategies, future events, capital expenditure, and exploration and development efforts. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may", "will", "should", "expect", "anticipate", "estimate", "continue", "plans", "intends", or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, the outcome of assays and additional exploration sampling and drilling efforts, delay in permits or approvals, technical or permitting problems, unanticipated drilling problems or costs, variations in ore grade, the market price of gold and other minerals, unanticipated delays or costs for construction, or start-up at our mines, unanticipated reclamation liabilities, the availability and timing of external financing or acceptable terms and other factors disclosed under the heading "Risk Factors" in Apollo Gold's 10-K for the year ended December 31, 2003 as well as our 10-Q filing for the period ended March 31, 2004 and elsewhere in Apollo Gold documents filed from time to time with the Toronto Stock Exchange, The American Stock Exchange, The United States Securities and Exchange Commission and other regulatory authorities. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions. We undertake no obligation to update 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 ("Cdn GAAP") 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 for the fiscal year ended December 31, 2003 included in our Annual Report (the "Annual Report") filed with the SEC. Certain reclassifications have been made to the prior period financial statements to conform with the current period presentation.

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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.

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, mining taxes and by-product credits for payable silver, lead and zinc. We have included cash operating

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costs information to provide investors with information about the cost structure of our mining operations. The term "total cash costs" is cash operating costs plus production royalties and mining taxes. The term "total production costs" is total cash costs plus depreciation and amortization.

This information differs from measures of performance determined in accordance with generally accepted accounting principles 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.

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### 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 report on Form 10-K for the year ended December 31, 2003.

#### APOLLO GOLD CORPORATION CONSOLIDATED BALANCE SHEETS (IN THOUSANDS OF UNITED STATES DOLLARS)

	June 30, 2004	December 31, 2003
	(Unaudited)	(Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 5,053	\$ 25,851
Short-term investments	7,446	5,855
Accounts receivable	3,295	4,647
Prepays	418	552
Broken ore on leach pad	11,632	9,594

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Inventories (Note 3)	3,168	2,839
-----		
	31,012	49,338
BROKEN ORE ON LEACH PAD	2,216	1,827
PROPERTY, PLANT AND EQUIPMENT (Note 4)	47,252	38,519
DEFERRED STRIPPING COSTS	31,382	24,033
RESTRICTED CERTIFICATE OF DEPOSIT AND OTHER ASSETS	8,603	6,893
-----		
	\$ 120,465	\$ 120,610
=====		

LIABILITIES

CURRENT

Accounts payable	\$ 5,313	\$ 5,848
Accrued liabilities	3,286	2,781
Notes payable	3,420	4,117
Property and mining taxes payable	1,053	1,080
-----		
	13,072	13,826
NOTES PAYABLE AND LONG TERM LIABILITY	2,228	3,275
ACCRUED SITE CLOSURE COSTS	22,197	21,619
-----		
	37,497	38,720
-----		

COMMITMENTS AND CONTINGENCIES (Note 8)

SHAREHOLDERS' EQUITY

Share capital (Note 5)	134,745	120,624
Issuable common shares	231	231
Contributed surplus (Note 5)	7,901	7,172
Deficit	(59,909)	(46,137)
-----		
	82,968	81,890
-----		
	\$ 120,465	\$ 120,610
=====		

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

APOLLO GOLD CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
(IN THOUSANDS OF UNITED STATES DOLLARS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

Three months ended June , 30		Six months ended June , 30	
2004	2003	2004	2003
-----		-----	

REVENUE

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Revenue from sale of minerals	\$	13,105	\$	17,111	\$	33,184	\$	25,927
-----								
OPERATING EXPENSES								
Direct operation costs		16,247		15,030		33,398		20,672
Depreciation and amortization		1,282		1,475		2,602		2,777
General and administrative expenses		1,508		983		3,238		2,272
Stock-based compensation		72		70		99		341
Accretion expense		346		320		691		640
Royalty expense		164		231		374		450
Exploration and business development		120		1,050		259		2,000
-----								
		19,739		19,159		40,661		29,152
-----								
OPERATING LOSS		(6,634)		(2,048)		(7,477)		(3,225)
OTHER INCOME (EXPENSES)								
Interest income		103		5		251		48
Interest expense		(97)		(168)		(207)		(317)
Foreign exchange (loss) gain and other		(300)		144		(488)		655
-----								
NET LOSS FOR THE PERIOD		(6,928)		(2,067)		(7,921)		(2,839)
-----								
DEFICIT, BEGINNING OF PERIOD		(52,981)		(44,723)		(46,137)		(43,951)
CUMMULATIVE EFFECT OF CHANGE IN								
ACCOUNTING POLICY (Note 2(a))		-		-		(5,851)		-
-----								
ADJUSTED OPENING BALANCE		(52,981)		(44,723)		(51,988)		(43,951)
-----								
DEFICIT, END OF PERIOD	\$	(59,909)	\$	(46,790)	\$	(59,909)	\$	(46,790)
=====								
NET LOSS PER SHARE, BASIC AND								
AND DILUTED	\$	(0.09)	\$	(0.04)	\$	(0.10)	\$	(0.06)
=====								
WEIGHTED AVERAGE NUMBER								
OF SHARES OUTSTANDING		79,482,734		48,268,690		77,068,637		47,322,353
=====								

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

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APOLLO GOLD CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS OF UNITED STATES DOLLARS)  
(UNAUDITED)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2004	2003	2004	2003
-----				
OPERATING ACTIVITIES				
Net loss for the period	\$	(6,928)	\$	(2,067)
	\$	(7,921)	\$	(2,839)

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Items not affecting cash				
Depreciation and amortization	1,282	1,475	2,602	2
Stock-based compensation	72	70	99	
Accretion expense	346	320	691	
Other	(47)	(118)	(113)	
Net change in non-cash operating working capital items	89	(2,169)	(1,327)	
	(5,186)	(2,489)	(5,969)	
-----				
INVESTING ACTIVITIES				
Property, plant and equipment expenditures	(7,784)	(1,011)	(10,907)	(2)
Deferred stripping costs	(3,834)	(886)	(7,349)	(4)
Short-term investments	466	-	(1,591)	
Restricted Certificate of Deposit and other assets	(1,665)	(187)	(1,710)	
	(12,817)	(2,084)	(21,557)	(7)
-----				
FINANCING ACTIVITIES				
Proceeds from exercise of warrants and options	299	453	8,860	2
Acquisition and cancellation of shares	-	-	(48)	
Payments of notes payable	(1,010)	(1,011)	(2,084)	(1)
	(711)	(558)	6,728	
-----				
NET DECREASE IN CASH	(18,714)	(5,131)	(20,798)	(6)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	23,767	6,973	25,851	8
-----				
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 5,053	\$ 1,842	\$ 5,053	\$ 1
=====				
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	\$ 97	\$ 141	\$ 207	\$
=====				
Income taxes paid	\$ -	\$ -	\$ -	\$
=====				

During the three months ended June 30, 2004, the Company issued 48,978 shares to meet the earn-in requirements of the Huizopa Joint Venture Agreement. Share capital and property, plant and equipment both increased by \$88 as a result of this transaction.

During the six months ended June 30, 2004, property, plant and equipment totaling \$340 was acquired under a non-cash financing agreement.

During the three and six months ended June 30, 2003, the Company issued 61,500 shares to acquire certain parcels of land located in Nevada. Share capital and property, plant and equipment both increased by \$134 as a result of this transaction.

During the six months ended June 30, 2003, property, plant and equipment totaling \$1,587 was acquired under capital lease obligations.

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

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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## 1. NATURE OF OPERATIONS

Apollo Gold Corporation ("Apollo" or the "Company") is engaged in gold mining including extraction, processing and refining and the production of other by-product metals, as well as related activities including exploration and development. The Company currently owns and has rights to operate the Florida Canyon Mine, an open pit heap leach operation located in the State of Nevada; the Montana Tunnels Mine, an open pit mine and mill, producing gold dor and lead-gold and zinc-gold concentrates located in the State of Montana; and the Diamond Hill Mine, currently under care and maintenance, also located in the State of Montana.

Apollo has two development properties, Black Fox, which is located in the Province of Ontario near the Township of Mattheson, and Standard Mine, which is located near the Florida Canyon Mine. Apollo has four exploration properties located near the Florida Canyon Mine.

Apollo has entered into an agreement to earn up to a 71% interest in the Huizopa project located in the Sierra Madre gold belt in Mexico.

## 2. ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles. 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, 2003, except as described in Notes 2 (a) and 2 (b). Certain information and note disclosure normally included in consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles have been omitted. These interim financial statements should be read together with the Company's audited financial statements for the year ended December 31, 2003.

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.

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

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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### 2. ACCOUNTING POLICIES (CONTINUED)

#### (a) Stock-based compensation

Effective January 1, 2004, the Company adopted the amended recommendations of the CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over their vesting periods. The compensation cost related to stock options granted to employees and directors after January 1, 2004 is recorded in the consolidated statement of operations.

Previously, the Company provided note disclosure of pro forma net loss as if the fair value based method had been used on stock options granted to employees and directors after January 1, 2002. The amended recommendations have been applied using the retroactive method without restatement and had the effect of increasing share capital, contributed surplus and opening deficit as follows:

	Increase as at January 1, 2004 -----
Share capital	\$ 257
Contributed surplus	5,594
Deficit	(5,851)

#### (b) Hedging relationships

Effective January 1, 2004, the Company adopted the CICA Accounting Guideline 13, Hedging Relationships ("AcG-13"). AcG-13 specifies the conditions under which hedge accounting is appropriate and includes requirements for the identification, documentation and designation of hedging relationships, sets standards for determining hedge effectiveness, and establishes criteria for the discontinuance of hedge accounting. The adoption of AcG-13 had no impact on the Company's results of operations and financial position.

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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### 3. INVENTORIES

Inventories consist of:



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	JUNE 30, 2004	December 31, 2003
	-----	-----
Concentrate inventory	\$ 174	\$ 98
Dore inventory	63	56
Materials and supplies	2,931	2,685
	-----	-----
	\$ 3,168	\$ 2,839
	=====	=====

4. PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment are as follows:

	JUNE 30, 2004		December 31, 2003	
	-----	-----	-----	-----
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	-----	-----	-----	-----
Mine assets				
Building, plant and equipment	\$16,467	\$ 4,569	\$ 11,898	\$ 10,643
Mining properties and development costs	34,325	6,438	27,887	20,412
	-----	-----	-----	-----
	50,792	11,007	39,785	31,055
Mineral rights	7,467	-	7,467	7,464
	-----	-----	-----	-----
Total property, plant and equipment	\$58,259	\$ 11,007	\$ 47,252	\$ 38,519
	=====	=====	=====	=====

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

5. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued and outstanding

Shares	Amount	Contributed Surplus
-----	-----	-----

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Balance, December 31, 2003 as previously reported	73,539,790	\$120,624	\$	7,172
Cumulative effect of change in accounting policy (Note 2 (a))	-	257		5,594
-----				
Adjusted balance, December 31, 2003	73,539,790	120,881		12,766
Warrants exercised	5,384,125	12,660		(4,075)
Options exercised	311,272	753		(505)
Options exercised by agents	15,723	35		(8)
Shares reacquired and cancelled	(20,500)	(48)		-
Shares issued for 2003 share-based compensation	265,000	376		(376)
Shares issued for Huizopa interest	48,978	88		-
Stock-based compensation	-	-		99
-----				
Balance, June 30, 2004	79,544,388	\$134,745	\$	7,901
=====				

(c) Warrants

The following summarizes outstanding warrants as at June 30, 2004:

Warrants	Number of Shares	Exercise Price	Expiry Date
-----	-----	-----	-----
653,277	653,277	\$ 1.67	September 26, 2005
63,969	63,969	\$ 1.67	October 26, 2005
3,000,000	3,000,000	\$ 2.10	December 23, 2006
-----			
3,717,246	3,717,246		
=====			

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

5. SHARE CAPITAL (CONTINUED)

(d) Share purchase options

(i) A summary of information concerning outstanding stock options at June 30, 2004 is as follows:

Fixed Stock Options	Performance-based Stock Options
-----	-----
Weighted	Weighted

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	Number of Common Shares	Average Exercise Price	Number of Common Shares	Average Exercise Price
Balances, December 31, 2003	1,887,300	\$ 2.20	2,500,154	\$ 0.80
Options granted	637,700	1.94	-	-
Options exercised	-	-	(311,272)	0.80
Options cancelled	(193,200)	2.17	(192,373)	0.80
Balances, June 30, 2004	2,331,800	\$ 2.13	1,996,509	\$ 0.80

(ii) The following table summarizes information concerning outstanding and exercisable fixed stock options at June 30, 2004:

Options Outstanding			Options Exercisable		
Number Outstanding	Expiry Date	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share	
1,547,200	February 18, 2013	\$ 2.24	795,700	\$ 2.24	
2,600	March 28, 2013	2.34	1,300	2.34	
70,000	May 21, 2013	2.27	35,000	2.27	
110,000	August 22, 2013	2.12	-	-	
100,000	November 13, 2013	1.67	-	-	
367,000	March 10, 2014	2.05	-	-	
135,000	May 19, 2014	1.44	-	-	
2,331,800		\$ 2.13	832,000	\$ 2.24	

(iii) As at June 30, 2004, the 1,996,509 performance-based stock options were fully vested and have an expiry date of June 25, 2007.

APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

5. SHARE CAPITAL (CONTINUED)

(e) 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:

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	Six months ended June 30,	
	2004	2003
Risk free interest rate	3.0%	3.5%
Dividend yield	0%	0%
Volatility	54%	52%
Expected life in years	5	3

As the Company has selected the retroactive without restatement method for reporting the change in accounting policy related to stock compensation expense (Note 2 (a)), the Company must disclose the impact on net loss and net loss per share as if the fair value based method of accounting for stock-based compensation had been applied in 2003.

	Three months ended June 30, 2003		Six months ended June 30, 2003	
Net loss				
As reported	\$	(2,067)	\$	(2,839)
Pro forma stock option expense		(815)		(1,769)
	\$	(2,882)	\$	(4,608)
Basic and diluted loss per share				
As reported	\$	(0.04)	\$	(0.06)
Pro forma	\$	(0.06)	\$	(0.10)

6. INCOME TAXES

The Company did not record a recovery for income taxes for the period ended June 30, 2004 as the net loss carry forwards are fully offset by a valuation allowance.

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gold hedges

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The Company entered into hedging 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 June 30, 2004 there are 40,000 ounces remaining on these contracts. The contracts give the holder the right to buy, and the Company the right to sell, stipulated amounts of gold at the upper and lower exercise prices, respectively. The contracts continue through April 25, 2005 with a put option strike price of \$295 per ounce and a call option strike price of \$345 per ounce. The Company has also entered into certain spot deferred forward contracts for the delivery of 2,000 ounces of gold. Gains or losses on these spot deferred forward contracts are recognized as an adjustment of revenue in the period when the originally designated production is sold. As at June 30, 2004, the fair value of the contracts is a loss of approximately \$2.2 million (December 31, 2003 - \$5.9 million).

The contracts mature as follows:

	Ounces of Gold -----
2004	26,000
2005	16,000
-----	-----
	42,000
=====	=====

### 8. COMMITMENTS AND CONTINGENCIES

#### (a) Environmental

The Company's mining and exploration activities are subject to various federal, provincial and state laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

#### (b) Litigation and claims

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

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(UNAUDITED)

### 9. SEGMENTED INFORMATION

Apollo operates the Montana Tunnels and Florida Canyon Mines 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.

Amounts as at June 30, 2004 are as follows:

	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
	-----	-----	-----	-----	-----
Cash and cash equivalents	\$ 289	\$ 61	\$ 127	\$ 4,576	\$ 5,053
Short-term investments	-	-	-	7,446	7,446
Broken ore on leach pad - current	-	11,632	-	-	11,632
Other non-cash current assets	4,040	2,373	385	83	6,881
	-----	-----	-----	-----	-----
Broken ore on leach pad - long-term	4,329	14,066	512	12,105	31,012
Property, plant and equipment	-	2,216	-	-	2,216
Deferred stripping costs	15,484	15,773	15,162	833	47,252
Restricted certificate of deposit and other assets	31,382	-	-	-	31,382
	-----	-----	-----	-----	-----
Total assets	\$ 54,296	\$ 37,126	\$ 16,041	\$ 13,002	\$ 120,465
	=====	=====	=====	=====	=====
Current liabilities	\$ 5,562	\$ 5,925	\$ 1,063	\$ 522	\$ 13,072
Notes payable and long-term liability	813	1,415	-	-	2,228
Accrued site closure costs	9,230	12,967	-	-	22,197
	-----	-----	-----	-----	-----
Total liabilities	\$ 15,605	\$ 20,307	\$ 1,063	\$ 522	\$ 37,497
	=====	=====	=====	=====	=====

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

### 9. SEGMENTED INFORMATION (CONTINUED)

Amounts as at December 31, 2003 are as follows:

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	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Cash and cash equivalents	\$ 754	\$ 19	\$ 95	\$ 24,983	\$ 25,851
Short-term investments	-	-	-	5,855	5,855
Broken ore on leach pad - current	-	9,594	-	-	9,594
Other non-cash current assets	5,345	2,263	71	359	8,038
	6,099	11,876	166	31,197	49,338
Broken ore on leach pad - long-term	-	1,827	-	-	1,827
Property, plant and equipment	15,559	13,529	8,914	517	38,519
Deferred stripping costs	24,033	-	-	-	24,033
Restricted certificate of deposit and other assets	2,663	3,809	377	44	6,893
<b>Total assets</b>	<b>\$ 48,354</b>	<b>\$ 31,041</b>	<b>\$ 9,457</b>	<b>\$ 31,758</b>	<b>\$ 120,610</b>
Current liabilities	\$ 6,140	\$ 6,515	\$ 507	\$ 664	\$ 13,826
Notes payable and long-term liability	980	2,295	-	-	3,275
Accrued site closure costs	9,148	12,471	-	-	21,619
<b>Total liabilities</b>	<b>\$ 16,268</b>	<b>\$ 21,281</b>	<b>\$ 507</b>	<b>\$ 664</b>	<b>\$ 38,720</b>

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

9. SEGMENTED INFORMATION (CONTINUED)

Amounts for the three and six month periods ended June 30, 2004 and 2003, respectively, are as follows:

	Three months ended June 30, 2004				
	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Revenue from sale of minerals	\$ 6,525	\$ 6,580	\$ -	\$ -	\$ 13,105
Direct operating costs	9,639	6,608	-	-	16,247
Depreciation and amortization	601	652	-	29	1,282
General and administrative expenses	-	-	-	1,508	1,508
Share-based compensation	-	-	-	72	72
Accretion expense	40	306	-	-	346
Royalty expense	-	164	-	-	164
Exploration and business development	-	-	-	120	120

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	10,280	7,730	-	1,729	19,739
Operating (loss) income	(3,755)	(1,150)	-	(1,729)	(6,634)
Interest income	-	-	-	103	103
Interest expense	(39)	(58)	-	-	(97)
Foreign exchange (loss) gain and other	-	-	-	(300)	(300)
Net (loss) income	\$ (3,794)	\$ (1,208)	\$ -	\$ (1,926)	\$ (6,928)
Investing activities					
Property, plant and equipment expenditures	\$ 412	\$ 2,897	\$4,242	\$ 233	\$ 7,784
Deferred stripping expenditures	3,834	-	-	-	3,834
Six months ended June 30, 2004					
	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Revenue from sale of minerals	\$ 18,149	\$ 15,035	\$ -	\$ -	\$33,184
Direct operating costs	19,839	13,559	-	-	33,398
Depreciation and amortization	1,177	1,369	-	56	2,602
General and administrative expenses	-	-	-	3,238	3,238
Share-based compensation	-	-	-	99	99
Accretion expense	81	610	-	-	691
Royalty expense	-	374	-	-	374
Exploration and business development	-	-	-	259	259
	21,097	15,912	-	3,652	40,661
Operating (loss) income	(2,948)	(877)	-	(3,652)	(7,477)
Interest income	-	-	-	251	251
Interest expense	(83)	(124)	-	-	(207)
Foreign exchange (loss) gain and other	-	-	-	(488)	(488)
Net (loss) income	\$ (3,031)	\$ (1,001)	\$ -	\$ (3,889)	\$ (7,921)
Investing activities					
Property, plant and equipment expenditures	\$ 762	\$ 3,596	\$6,249	\$ 300	\$10,907
Deferred stripping expenditures	7,349	-	-	-	7,349

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTH PERIOD ENDED JUNE 30, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

9. SEGMENTED INFORMATION (CONTINUED)



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	Three months ended June 30, 2003				
	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Revenue from sale of minerals	\$ 7,847	\$ 9,264	\$ -	\$ -	\$17,111
Direct operating costs	7,165	7,865	-	-	15,030
Depreciation and amortization	945	495	-	35	1,475
General and administrative expenses	30	-	-	953	983
Share-based compensation	-	-	-	70	70
Accretion expense	79	241	-	-	320
Royalty expense	-	231	-	-	231
Exploration and business development	-	-	871	179	1,050
	8,219	8,832	871	1,237	19,159
Operating (loss) income	(372)	432	(871)	(1,237)	(2,048)
Interest income	-	-	-	5	5
Interest expense	(26)	(89)	-	(53)	(168)
Foreign exchange (loss) gain and other	-	-	362	(218)	144
Net (loss) income	\$ (398)	\$ 343	\$ (509)	\$ (1,503)	\$ (2,067)
Investing activities					
Property, plant and equipment expenditures	\$ 619	\$ 485	\$ -	\$ 41	\$ 1,145
Deferred stripping expenditures	886	-	-	-	886

	Six months ended June 30, 2003				
	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Revenue from sale of minerals	\$ 7,847	\$ 18,080	\$ -	\$ -	\$25,927
Direct operating costs	7,165	13,507	-	-	20,672
Depreciation and amortization	945	1,783	-	49	2,777
General and administrative expenses	47	-	-	2,225	2,272
Share-based compensation	-	-	-	341	341
Accretion expense	157	483	-	-	640
Royalty expense	-	450	-	-	450
Exploration and business development	-	-	1,638	362	2,000
	8,314	16,223	1,638	2,977	29,152
Operating (loss) income	(467)	1,857	(1,638)	(2,977)	(3,225)
Interest income	-	-	-	48	48
Interest expense	(80)	(184)	-	(53)	(317)
Foreign exchange (loss) gain and other	-	-	363	292	655
Net (loss) income	\$ (547)	\$ 1,673	\$ (1,275)	\$ (2,690)	\$ (2,839)
Investing activities					
Property, plant and equipment expenditures	\$ 896	\$ 2,973	\$ 140	\$ 157	\$ 4,166
Deferred stripping expenditures	4,397	-	-	-	4,397

APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. 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 and six month periods ended June 30, 2004 and 2003.

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

CONSOLIDATED BALANCE SHEET  
 JUNE 30, 2004

	Property, Plant and Equipment	Deferred Stripping Costs	Accounts Payable	Other Liabilities	Ca
As at June 30, 2004					
Canadian GAAP	\$ 47,252	\$ 31,382	\$ 5,313	\$ -	\$134
Convertible debenture (a)	-	-	-	-	-
Gold hedge loss (c)	-	-	(75)	2,192	
Impairment of property, plant and equipment and capitalized deferred stripping costs and change in depreciation and amortization (d)	(5,246)	(8,472)	-	-	
Flow-through common shares (e)	-	-	-	-	
Black Fox development costs (f)	(9,893)	-	-	-	
As at June 30, 2004					
U.S. GAAP	\$ 32,113	\$ 22,910	\$ 5,238	\$ 2,192	\$134

APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED  
 ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

CONSOLIDATED BALANCE SHEET  
 DECEMBER 31, 2003

	Property, Plant and Equipment	Deferred Stripping Costs	Accounts Payable	Other Liabilities	Share Capital	
As at December 31, 2003, Canadian GAAP	\$ 38,519	\$ 24,033	\$ 5,848	\$ -	\$120,624	\$
Convertible debenture (a)	-	-	-	-	-	
Share-based compensation (b)	-	-	-	-	-	
Gold hedge loss (c)	-	-	(551)	5,911	-	
Impairment of property, plant and equipment, capitalized deferred stripping costs and change in depreciation and amortization (d)	(5,543)	(8,740)	-	-	-	
Flow-through common shares (e)	-	-	-	-	(238)	
Black Fox development costs (f)	(3,643)	-	-	-	-	
As at December 31, 2003, U.S. GAAP	\$ 29,333	\$ 15,293	\$ 5,297	\$ 5,911	\$120,386	\$

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED  
 ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

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

2004      2003  
 -----

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Net loss for the three month period ended June 30, based on Canadian GAAP	\$ (6,928)	\$ (2,067)
Share-based compensation (b)	-	(318)
Gold hedge gain (c)	1,431	302
Impairment of property, plant and equipment and change in depreciation (d)	155	-
Impairment of capitalized deferred stripping costs and change in amortization (d)	113	-
Black Fox development costs (f)	(4,255)	-
-----	-----	-----
Net loss for the period based on U.S. GAAP	\$ (9,484)	\$ (2,083)
=====	=====	=====
Other comprehensive gain (loss)		
Unrealized gain on cash flow hedges	\$ 1,430	\$ -
=====	=====	=====
Comprehensive loss	\$ (8,054)	\$ (2,083)
=====	=====	=====
Net loss per share - U.S. GAAP basic and diluted	\$ (0.12)	\$ (0.04)
=====	=====	=====

	2004	2003
	-----	-----
Net loss for the six month period ended June 30, based on Canadian GAAP	\$ (7,921)	\$ (2,839)
Cumulative effect of change in accounting policy (b)	(1,508)	-
Share-based compensation (b)	-	(768)
Gold hedge gain (c)	2,250	1,326
Impairment of property, plant and equipment and change in depreciation (d)	297	-
Impairment of capitalized deferred stripping costs and change in amortization (d)	268	-
Black Fox development costs (f)	(6,250)	-
-----	-----	-----
Net loss for the period based on U.S. GAAP	\$ (12,864)	\$ (2,281)
=====	=====	=====
Other comprehensive gain (loss)		
Unrealized gain on cash flow hedges	\$ 993	\$ -
=====	=====	=====
Comprehensive loss	\$ (11,871)	\$ (2,281)
=====	=====	=====
Net loss per share - U.S. GAAP basic and diluted	\$ (0.17)	\$ (0.05)
=====	=====	=====

APOLLO GOLD CORPORATION  
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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED  
ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

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(a) Convertible debenture

Under Canadian GAAP, the convertible debenture was 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 \$20,675,000 for the year ended December 31, 2002. Canadian GAAP does not require the recognition of any beneficial conversion feature.

(b) Stock-based compensation

Under Canadian GAAP, effective January 1, 2004, the Company adopted the amended recommendations of CICA Handbook Section 3870 (Note 2 (a)). 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. As required by SFAS 148, the Company must disclose the impact on net income and basic and diluted loss per share as if the fair value based method had been applied in the comparative period.

	2004	2003
	-----	-----
Net loss for the three month period ended		
June 30, as reported	\$ (9,484)	\$ (2,083)
Stock option expense as reported	72	318
Pro forma stock option expense	(72)	(815)
	-----	-----
Net loss - pro forma	\$ (9,484)	\$ (2,580)
	=====	=====
Net loss per share, basic - for the three month		
period ended June 30	\$ (0.12)	\$ (0.04)
Stock option expense as reported	0.00	0.01
Pro forma stock option expense	(0.00)	(0.02)
	-----	-----
Net loss per share, basic - pro forma	\$ (0.12)	\$ (0.05)
	=====	=====

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 SIX MONTH PERIOD ENDED JUNE 30, 2004  
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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

(b) Stock-based compensation (continued)

	2004	2003
	-----	-----
Net loss for the six month period ended		
June 30, as reported	\$ (12,864)	\$ (2,281)
Stock option expense as reported	99	768
Pro forma stock option expense	(99)	(1,769)
<hr/>		
Net loss - pro forma	\$ (12,864)	\$ (3,282)
<hr/>		
Net loss per share, basic - for the six month		
period ended June 30	\$ (0.17)	\$ (0.05)
Stock option expense as reported	0.00	0.02
Pro forma stock option expense	(0.00)	(0.04)
<hr/>		
Net loss per share, basic - pro forma	\$ (0.17)	\$ (0.07)
<hr/>		

(c) Gold hedge gain (loss)

Under U.S. GAAP, the Company's put and call option contracts are designated as cash flow hedges. To the extent they provide effective offset, changes in fair value arising from these derivative instruments are deferred in other comprehensive loss and recognized in the consolidated statement of operations when the hedged transaction has occurred. The ineffective portion of the change in fair value of the contracts is recorded in the consolidated statement of operations. Prior to January 1, 2004, the Company had not designated these contracts as hedges and all changes in fair value during prior periods was recorded in the consolidated statement of operations.

(d) 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. Under U.S. GAAP, write-downs are determined using current proven and probable reserves. Accordingly, for U.S. GAAP purposes, an impairment of property, plant and equipment and capitalized deferred stripping costs and an adjustment to the related depreciation and amortization expense has been recorded.

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

(e) 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 paid in excess of the market value of \$238,000 is credited to other liabilities and included in income as the qualifying expenditures are made.

(f) 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. Accordingly, for U.S. GAAP purposes, a reduction in property, plant and equipment of \$9,893,000 has been recorded as at June 30, 2004.

(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 six month periods ended June 30, 2004 and 2003 would reflect a reduction in cash utilized in investing activities of \$7,349,000 and \$4,397,000, respectively, and a corresponding increase in cash utilized in operating activities.

(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 components of comprehensive loss are the net loss for the period and the change in fair value of the effective portion of the cash flow hedges (Note 10 (c)).

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SIX MONTH PERIOD ENDED JUNE 30, 2004  
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### 10. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") (CONTINUED)

#### (i) Recently issued accounting pronouncements

In March 2004, the Emerging Issues Task Force issued EITF 04-2, Whether Mineral Rights are Tangible or Intangible Assets ("EITF 04-2"). The Task Force reached a consensus that mineral rights are tangible assets. In April 2004, the FASB issued proposed FASB Staff Positions ("FSPs") FAS 141-1 and FAS 142-1, Interaction of FASB Statements No. 141, Business Combinations ("SFAS 141"), and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), and EITF Issue No. 04-2, Whether Mineral Rights are Tangible or Intangible Assets. The proposed FSPs amend SFAS 141 and 142 to conform them to the Task Force consensus. The FSPs are effective for the first reporting period beginning after April 29, 2004. The Company does not anticipate that the adoption of EITF 04-2 and FSPs 141-1 and 142-1 will have a material effect on the Company's results of operations, financial position or disclosures.

In March 2004, the EITF issued EITF 04-3, Mining Assets: Impairment and Business Combinations. EITF 04-3 requires mining companies to consider cash flows related to the economic value of mining assets (including mineral properties and rights) beyond those assets' proven and probable reserves, as well as anticipated market price fluctuations, when assigning value in a business combination in accordance with SFAS 141 and when testing the mining assets for impairment in accordance with SFAS 144. The consensus is effective for fiscal periods beginning after March 31, 2004.

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### ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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. For a reconciliation to accounting principles generally accepted in the United States, see Note 10 to the attached consolidated financial statements.

In this Form 10-Q, the terms "total cash cost" and "cash operating cost" are used on a per ounce of gold basis. Total cash cost per ounce is equivalent to mining operations expense for the period as found on the Consolidated Statements of Operations, divided by the number of ounces of gold sold during the period. Cash operating cost per ounce is equivalent to mining operations expense for the period less production royalties and production taxes, divided by the number of ounces of gold sold during the period.

#### RECONCILIATION OF

CASH OPERATING AND TOTAL PRODUCTION COSTS PER OUNCE  
(\$IN THOUSANDS)

Three months ended June 30,

Six months

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	2004	2003	2004
	-----	-----	-----
Gold Ounces Sold	24,345	39,852	57,5
Direct Operating Costs	16,247	15,030	33,3
Less: Mining Taxes	283	107	6
By-Product Credits	4,439	3,301	11,8
Cash Operating Cost	11,525	11,622	20,9
Cash Operating Cost per Ounce	\$ 474	\$ 290	\$ 3
Cash Operating Cost	11,525	11,622	20,9
Add: Mining Taxes	283	107	6
Royalty Expense	164	231	3
Total Cash Operating Costs		11,960	21,9
Total Cash Operating Cost per Ounce	\$ 492	\$ 299	\$ 3
Total Cash Operating Costs	11,972	11,960	21,9
Add: Depreciation & Amortization (operations only)	1,254	2,012	2,5
Total Production Costs	13,226	13,972	24,5
Total Production Cost per Ounce	\$ 543	\$ 352	\$ 4

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 GAAP in Canada and the United States and should not be considered in isolation or as 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.

The following presents a discussion of the financial condition and results of operations of the Company for the three and six months ended June 30, 2004 and 2003.

#### BACKGROUND

We are principally engaged in the exploration, development and mining of gold. We have focused our efforts to date on two principal operating properties: our Montana Tunnels and Florida Canyon Mines.

The Florida Canyon Mine is a low grade heap leach gold mine located approximately 42 miles southwest of Winnemucca, Nevada. On average, the Florida Canyon Mine has produced approximately 125,000 ounces of gold and approximately 80,000 ounces of silver annually since 1985.

We also own and operate the Montana Tunnels Mine, an open pit located near Helena, Montana. When in full production, over the last five years, the Montana Tunnels Mine has historically produced approximately 78,000 ounces of gold, 26,000 tons of zinc, 8,700 tons of lead and 1,200,000 ounces of silver annually.

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The Montana Tunnels Mine was idle for approximately three months in 2003, while we made preparations to begin the removal of waste rock at the Mine. Limited production resumed in April 2003. In October of 2003, a second waste stripping project ("Phase II") known as the L-Pit project was initiated, and we are currently pre-stripping approximately 25 million tons of waste from the south and west high walls of the open pit after which the L-Pit should add an additional three to four years to the mine life.

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Our mine development activities involve our Black Fox property, located in Ontario, Canada and our Standard Mine property. During 2003, we acquired and incorporated into the Standard Mine property additional adjacent land positions in Buffalo Canyon. Our exploration activities involve our Pirate Gold, Nugget Field and Diamond Hill properties along with our recently acquired claims staked and land acquired at the Willow Creek property (which is located in the vicinity of the Florida Canyon operation).

### OVERVIEW

Production was substantially reduced and production costs were substantially increased during the third quarter, resulting primarily from lower grade ore at both Montana Tunnels and Florida Canyon. At Montana Tunnels, we are completing a 25 million ton stripping program, which we expect to finish late in the third quarter. During the second quarter, we mined lower grade ore, or mineralized material, from the outer limits of the pit wall, much of which was not included in our ore reserves. We expect to begin mining from our higher grade reserve ore in the fourth quarter. At Florida Canyon, we changed our mining sequence in the second quarter due to safety concerns at one of the pits. This resulted in our mining lower grade ore than we had anticipated. In addition, we are experiencing longer leach times as the pad reaches its maximum height of 300 feet.

During the quarter, we continued development of the Standard mine, expected to commence production in the fourth quarter, and development drilling at the Black Fox project, as well as commenced initial activities at Huizopa. As a result of our lower production, higher production costs and development costs, our cash and cash equivalent balances were reduced from approximately \$31.7 million at March 31, 2004, to \$12.5 million at June 30, 2004, and subsequently to approximately \$5.4 million at July 31, 2004.

We have previously announced that our available cash is not sufficient for the remainder of 2004, without curtailment of some of our capital activities. We are engaged in advanced discussions regarding various external financing transactions. If we are unable to raise approximately \$10 to \$15 million on acceptable terms, we plan to focus our efforts on completing the stripping at Montana Tunnels and the development of the Standard Mine. Depending on our available cash, we could defer further mining at our Florida Canyon operation, while generating cash by recovering gold from the leach pad. We also would defer most expenditures at Black Fox and Huizopa.

### RECENT DEVELOPMENTS

In the first six months of 2004, we focused our development efforts on our Black Fox and Standard Mine properties. The Black Fox Property is located east of Timmins, Ontario, and was acquired in September 2002. We currently anticipate that the development and commercialization of our Black Fox Property will require three phases. The first phase commenced in early 2003, and involved a drilling program to test the open pit potential and core drilling of 297 core holes from 100 to 500 meters in depth. As a result of the core drilling, we

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have identified proven and probable reserves at the Black Fox Property.

Upon completion of the first phase, we began the second phase of our Black Fox Project development in February 2004. The second phase was the development of an underground access for further exploratory drilling. An underground ramp from the existing structures was developed of 152 meters in length and a 920 meter drift was completed in June 2004. Currently

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there are four underground electric drills working from this drift and as of June 30, 2004, 17,000 meters of core has been drilled from 101 holes.

In addition to the underground work mentioned above, this year 80 surface holes drilled 35,000 meters. To date a total of 374 surface holes have yielded approximately 118,000 meters of core.

We plan to produce a "bankable" feasibility study for the continued development and production of this project in the first quarter 2005.

The permitting process, part of the third phase of the Black Fox project, began in 2004 and it is anticipated that this process will require approximately two years, based on a plan for a combined open pit and underground mine, with on-site milling, at a capacity of approximately 1,500 metric tons of ore per day. The third phase would include construction of the mine and processing facilities.

During the first six months at the Standard Mine we have made significant progress. Final permitting was received on May 5, 2004 and construction commenced immediately. By the end of the second quarter, the solution and storm event ponds were completed except for the perimeter berms and collection ditches. All primary grading on the leach pad was completed and surface grooming is in progress for liner installation which commenced in mid-July, 2004. We have continued exploration drilling at the Standard Mine and have drilled approximately 174 holes in 2004.

The Buffalo Canyon portion of our Standard Mine property is located immediately south of and contiguous to the pre-existing Standard Mine property. We acquired Buffalo Canyon in 2003 and completed our Phase I drilling in December 2003. We believe that the northern portion of Buffalo Canyon has the highest potential, and plan to conduct further follow-up drilling in late 2004. The second phase of drilling has been completed at Buffalo Canyon. This drilling is intended to help determine the orientation and thickness of sporadic high-grade veins within the system trending in a southward direction.

During 2004 drilling has continued in the South Pit area of the Standard mine property. At the Star deposit our drilling databases will be updated with reserve calculations in the second half of 2004.

In April of 2004, Apollo announced an earn-in joint venture agreement with Argonaut Mines LLC of Reno, Nevada. Under this agreement, we can earn an interest in the Huizopa exploration project, contained in an area of 22 square kilometers near the Chihuahua border with the state of Sonora, Mexico, approximately 146 miles due east of the city of Hermosillo and between the advanced stage multi-million ounce gold/silver deposits of Mulatos and Dolores.

Apollo's initial earn-in cost was \$125,000 plus 48,978 common shares of Apollo Gold Corporation stock. The agreement also includes a commitment to expend \$3.0 million for exploration over a four year period and \$2.2 million in land payments over this same time frame. Once complete, Apollo will own 51% of the project.

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

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### APOLLO GOLD CORPORATION PRODUCTION & METALS PRICE AVERAGES

	YEARS			
	2004	2003	2002	2001
	----- JUNE 04 -----	-----	-----	-----
Gold (Ounces)	57,515	145,935	148,173	192,887
Silver (Ounces)	380,883	471,241	275,925	963,050
Lead (Pounds)	4,867,228	10,843,184	5,481,230	13,759,579
Zinc (Pounds)	15,014,586	21,792,452	15,328,392	40,158,321
 AVERAGE METAL PRICES:				
Gold - London Bullion Mkt. (\$/ounce)	\$ 401	\$ 364	\$ 310	\$ 271
Silver - London Bullion Mkt. (\$/ounce)	\$ 6.47	\$ 4.88	\$ 4.59	\$ 4.37
Lead - LME (\$/pound)	\$ 0.39	\$ 0.23	\$ 0.20	\$ 0.22
Zinc - LME (\$/pound)	\$ 0.50	\$ 0.38	\$ 0.35	\$ 0.40

Note: Includes the operations of Nevoro Gold Corporation and its wholly-owned subsidiary Apollo Gold Inc., prior to June 25, 2002.

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

Our revenues for the three months ended June 30, 2004 were approximately \$13.1 million derived primarily from the sale of 24,345 ounces of gold. This compares to approximately \$17.1 million derived primarily from the sale of 39,852 ounces of gold for the same period in 2003. The average price received for gold for the second quarter of 2004 and 2003 was \$356 and \$347 per ounce, respectively. Our revenues for silver, zinc and lead for the three months ended June 30, 2004 were \$4.4 million compared to \$3.3 million during the same period 2003. Gold revenues decreased as production ounces fell short of projections due primarily to the processing of lower grade ores at both operations. Base metal revenues increased as a result of higher metal prices partly offset by lower production levels.

Sales of minerals from our Florida Canyon Mine accounted for 50.2% of our revenues for the three months ended June 30, 2004, with the remaining 49.8% of revenues derived from sales of minerals from our Montana Tunnels Mine. In the three months ended June 30, 2004, we received approximately 66% of our revenue from sales of gold and 34% from sales of silver, zinc and lead compared to 81% from the sales of gold and 19% from the sales of silver, zinc and lead for the same period in 2003. This change is due primarily to higher base metal production and prices in the 2004 period.

Total cash costs for the quarter were \$492 per ounce compared to \$299 for the quarter ended June 30, 2003. The second quarter of 2004 was a transition quarter for the Company. Lower ore grades were processed at the Montana Tunnels

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operation as well as at Florida Canyon. At Montana Tunnels, ores or "mineralized materials" were mined and processed from the outer limits of the pit wall and much of it was not included in the ore reserves. The ore grades were lower than our reserve grades, but high enough to more than pay for the processing costs. At Florida Canyon, production from the "Switchback Pit" has been delayed for safety reasons. This ore was what was expected to be mined currently however an updated mine plan design shows the reserve being mined from the "Upper Switchback Pit" next year

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### Montana Tunnels

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During the three months ended June 30, 2004, total tonnage moved was 8.9 million tons of which 7.5 million tons of waste was removed from the west side of the pit at Montana Tunnels. Revenues at Montana Tunnels were \$6.5 million. Gold production for the quarter was 5,903 ounces, less than expected as the gold grades processed during quarter were much less than expected. Higher metal prices (gold, silver, lead and zinc) could not offset the shortfall in production. The second quarter of 2004 is a "transition" period for Montana Tunnels with mining concentrating on the capitalized stripping process, meaning that mineralized materials not included in our ore reserves were processed through our mill. For the quarter the gold ore grades of these mineralized materials were less than expected but high enough to economically run the processing facility. Mill modifications have been completed during the second quarter to add throughput to help alleviate this metal shortfall. However, the mine will continue into a "transition" period until the main reserves are reached later this year (projected in the fourth quarter of the year).

Following are the key statistics for the Montana Tunnels operation for the three months ended June 30, 2004 and 2003.

	2004 THREE MONTHS	2003 THREE MONTHS
Tons Mined	8,856,053	4,371,420
Tons Milled	1,157,512	1,179,408
 Production:		
Gold Ounces	5,903	13,118
Silver Ounces	224,911	129,523
Lead Pounds	1,723,835	3,407,222
Zinc Pounds	5,974,314	5,563,276
 Total Revenue (US \$ millions)		
	\$ 6.5	\$ 7.8
 Capital Expenditures (US \$ millions)		
	\$ 4.2	\$ 1.5

Total cash costs for the quarter were \$899 per ounce compared to \$343 per ounce for the second quarter of 2003. Total production costs were \$1,001 compared to \$379 for the same period of 2003. As stated, the second quarter was a transition quarter for the mine as we work through the mineralized material in the outer fringes of the reserve. These materials are of lower grade than the reserves, but have enough mineralization to more than pay for the processing costs.

### Florida Canyon

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At Florida Canyon, we produced 18,442 ounces of gold for the three months ended June 30, 2004 as compared to 26,733 ounces of gold for the same period in 2003. This lower production was a direct result of lower ore grades being processed and a longer recovery time due to the leach pad reaching its maximum height of 300 feet.

The following are key operating statistics at Florida Canyon for the three months ended June 30, 2004 compared to the same period June 30, 2003:

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	2004 THREE MONTHS	2003 THREE MONTHS
Tons Mined	6,477,132	5,029,696
Ore tons to Leach Pad	2,090,826	2,526,659
Gold Production	18,442	26,733
Silver Production	17,160	13,477
Total Revenue (\$US millions)	\$ 6.6	\$ 9.3
Capital Expenditures:		
Florida Canyon	\$ 0.2	\$ 0.3
Standard Mine	\$ 2.8	\$ 0.1

Total cash costs for the quarter were \$361 per ounce compared to \$275 per ounce for the same period of 2003. Total production costs were \$397 per ounce for the current quarter compared to \$326 per ounce for the second quarter of 2003. The leach pad at Florida is reaching its maximum height of 300 feet. The leach time is slowing as this height is reached, which reduces production. The mine is experiencing lower ore grades due to a rescheduling of the mining plan. This rescheduling was done for safety reasons at the Switchback pit. This pit will be mined next year from a higher elevation.

We commenced construction at the Standard Mine in the second quarter 2004. The mine is expected to be completed during the third quarter and produce approximately 10,000 ounces in the fourth quarter of this year. Construction costs are on schedule and within budget. Total expenditures are expected to be approximately \$9.5 million. This total will include the reclamation bonding, development drilling, construction costs and internal management allocations. We will operate this mine as a satellite of the Florida Canyon Mine. We currently project production rates of approximately 100,000 ounces of gold on an annual basis for the combined operation.

### General

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Our direct operating costs equaled approximately \$16.2 million and \$15.0 million for the three months ended June 30, 2004 and 2003, respectively. These amounts include mining and processing costs from both mines as Montana Tunnels commenced production in April 2003. We incurred depreciation and amortization expenses of approximately \$1.3 million for the three months ended June 30, 2004 as compared to \$1.5 million for the same period 2003.

We incurred approximately \$1.5 million and \$1.0 million for the three months ended June 30, 2004 and 2003, respectively, in general and administrative expenses. As of January 2004 the Company has adopted the fair value method of

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accounting for stock options as set out in CICA Handbook section 3870, Stock-Based Compensation and Other Stock-Based Payments. As a result, we incurred share-based compensation of approximately \$0.1 million in 2004 and 2003, respectively.

Our expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.1 million and \$1.1 million for the three months ended June 30, 2004 and 2003, respectively. The reduction in expenditures is due to

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2003 expenditures on the Black Fox and Standard Mines being expensed, whereas currently these projects are classified as development projects and therefore their expenditures are capitalized for accounting purposes.

As a result of these expense components, our operating expenses totaled approximately \$19.7 million for the three months ended June 2004, as compared to approximately \$19.2 million for the same period in 2003.

We realized interest income of approximately \$0.1 million during the three months ended June 30, 2004. We incurred interest expense of approximately \$0.1 million in the same period, primarily for equipment leases. We realized \$5,000 in interest income but incurred net interest expense of approximately \$0.2 million during the comparable period in 2003. The interest income increase is due to the investment of the equity funds that were raised in the fall of 2003. Interest expense is going down due to the equipment lease accounts being paid down.

We recognized foreign exchange losses of approximately \$0.3 million and foreign exchange gains of approximately \$0.1 million during the three months ended June 30, 2004 and 2003, respectively, from cash balances held in Canadian dollars. We utilize United States dollars as our functional and reporting currency.

Based on these factors, we incurred a loss of approximately \$6.9 million or \$0.09 per share for the three months ended June 30, 2004, as compared to a loss of approximately \$2.1 million or \$0.04 per share, for the three months ended June 30, 2003.

### SIX MONTHS ENDED JUNE 30, 2004 COMPARED TO SIX MONTHS ENDED JUNE 30, 2003

Our revenues for the six months ended June 30, 2004 were approximately \$33.2 million derived primarily from the sale of 57,515 ounces of gold. This compares to approximately \$25.9 million derived primarily from the sale of 64,909 ounces of gold for the same period in 2003. The average price realized for gold for the first six months of 2004 and 2003 was \$372 and \$348 per ounce, respectively. These amounts are lower than the spot price for both periods because the Company has been delivering gold ounces into the hedge book entered into in 2002. The revenues from silver, zinc and lead, included in the above revenue numbers, for the six months ended June 30, 2004 were \$11.8 million compared to \$3.4 million during the same period 2003. The growth in revenue results primarily from six months production from Montana Tunnels in 2004 compared to three months in 2003. Total cash costs for the period were \$382 per ounce and total production costs were \$426 per ounce. This compares with a total cash cost of \$273 per ounce and a total production cost of \$333 per ounce for the first six months of 2003. A higher gold price in the 2004 period was offset by higher production costs and lower gold production for the six months ended June 30, 2004. The lower gold production and higher costs result primarily from processing lower ore grades at both mines during the second quarter.

Sales of minerals from our Montana Tunnels Mine accounted for 54.7% of our

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revenues for the six months ended June 30, 2004, with the remaining 45.3% of revenues derived from sales of minerals from our Florida Canyon Mine. In the six months ended June 30, 2004, we received approximately 64% of our revenue from sales of gold and 36% from sales of silver, zinc and lead compared to 87% from the sales of gold and 13% from the sales of silver, zinc and lead for the same period in 2003. This change is due primarily to higher base metal production and prices in the 2004 period.

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### Montana Tunnels

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During the first six months of 2004, 14.9 million tons of waste was removed at Montana Tunnels. This is in addition to the 6.5 million tons of waste removed in the fourth quarter of 2003, bringing the Phase II total to 21.4 million tons removed. Revenues at Montana Tunnels are behind our projections as the gold ore grades in the mineralized materials that we are milling are less than expected. In addition the coarse ore handling system continues to plug up leading to lower mill throughputs. Mill throughput per day has improved during the second quarter 2004 as modifications have been completed to the crushing circuit.

Following are the key statistics for the Montana Tunnels operation for the first six months of 2004. Information for the first six months of 2003 only include production from April 2003 when commercial production commenced.

	2004 SIX MONTHS	2003 SIX MONTHS
Tons Mined	17,788,333	10,815,510
Tons Milled	2,266,101	1,179,408
Production:		
Gold Ounces	16,686	13,118
Silver Ounces	343,669	129,523
Lead Pounds	4,867,228	3,407,222
Zinc Pounds	15,014,586	5,563,276
Total Revenue (US \$millions)	\$ 18.1	\$ 7.8
Capital Expenditures (US \$millions)	\$ 8.5	\$ 5.3

For the six months ended June 30, 2004 total cash costs at Montana Tunnels were \$496 per ounce and total production costs were \$566 per ounce. These costs compare to a total cash cost of \$297 per ounce and a total production cost of \$399 for the same period ended in 2003. However for the first three months of 2003, Montana Tunnels was in development and there were no commercial ounces produced. The higher cash costs are a direct reflection of the lower ore grades processed during the second quarter of 2004. These ores or non-reserve grade materials were mined and processed from the outer limits of the pit wall and much of it was not included in the ore reserves. The ore grades processed were lower than our reserve grades, but high enough to more than pay for the processing, transport and smelting costs.

### Florida Canyon

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At Florida Canyon, we produced 40,829 ounces of gold for the six months ended



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June 30, 2004 as compared to 51,790 ounces of gold for the same period in 2003. This lower production was a direct result of lower ore grades (due to a change in mining plans) and longer recovery time (the leach pad is reaching its maximum height of 300 feet).

Following are key operating statistics at Florida Canyon for the first six months of 2004 compared to the same period of 2003:

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	2004 SIX MONTHS	2003 SIX MONTHS
Total Tons Mined	12,866,814	10,319,328
Ore to Leach Pad	3,699,964	4,817,295
Gold Production	40,829	51,790
Silver Production	37,215	27,240
Total Revenue (\$US millions)	\$ 15.0	\$ 18.1
Capital Expenditures:		
Florida Canyon	\$ 0.4	\$ 2.6
Standard Mine	\$ 3.3	\$ 0.4

For the six months ended June 30, 2004 total cash costs were \$335 per ounce and total production costs were \$369 per ounce. These costs compare to a total cash cost of \$267 per ounce and a total production cost of \$316 per ounce for the same period ending June 30, 2003. The higher per ounce costs are due to lower production rates experienced in the first half of 2004 due to the processing of lower grade ores and longer leach times.

We commenced construction at the Standard Mine during the second quarter of 2004. This mine will be operated in conjunction with the Florida Canyon Mine. We currently project production sales of approximately 100,000 ounces of gold on an annual basis for the combined operation.

### Financial Performance

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Based on gold reserves we expect the Montana Tunnels Mine, the Florida Canyon Mine and the Standard Mine, collectively, to produce approximately 128,000 ounces of gold in 2004.

Our direct operating expense was \$33.4 million and \$20.7 million for the six months ended June 30, 2004 and 2003, respectively. These amounts include mining and processing costs. The lower direct operating costs in 2003 reflect the operating costs at the Florida Canyon Mine and three months at Montana Tunnels as it was in development for the first three months of 2003. We incurred depreciation and amortization expenses of approximately \$2.6 million for the six months ended June 30, 2004 as compared to \$2.8 million for the 2003 period.

We incurred approximately \$3.2 million and \$2.3 million for the six months ended June 30, 2004 and 2003, respectively, in general and administrative expenses. As of January 2004 the Company has adopted the fair value method of accounting for stock options as set out in CICA Handbook section 3870, Stock-Based Compensation

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and Other Stock-Based Payments. As a result, we incurred share-based compensation of approximately \$0.1 million for the first six months ended in June 30, 2004 compared to \$0.3 million in the same period of 2003. We also show the cumulative effect on opening deficit of the change for the share based compensation in 2003 of approximately \$5.9 million. This cumulative effect of the change in share-based compensation includes the original stock options issued upon the amalgamation of the Company with International Pursuit as well as our employee stock option incentive plan.

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Our expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.3 million and \$2.0 million for the six months ended June 30, 2004 and 2003, respectively. The reduction in expenditures is due to 2003 expenditures on the Black Fox and Standard Mines being expensed, whereas currently these projects are classified as development projects and therefore their expenditures are capitalized for accounting purposes.

As a result of these expense components, our operating expenses totaled approximately \$40.7 million for the six months ended June 2004, as compared to approximately \$29.2 million for the same period in 2003. The difference is primarily attributable to the addition of Montana Tunnels operating expenses for the full six months of 2004 compared to three months in the 2003 period.

We realized interest income of approximately \$0.3 million during the six months ended June 30, 2004. We incurred interest expense of approximately \$0.2 million in the same period, primarily for equipment leases. We realized \$48,000 in interest income but incurred net interest expense of approximately \$0.3 million during the comparable period in 2003. The interest income increase is due to the investment of the equity funds that were raised in the third quarter of 2003. Interest expense is reduced due to the equipment lease accounts being paid down.

We recognized foreign exchange losses of approximately \$0.5 million and foreign exchange gains of approximately \$0.7 million during the six months ended June 30, 2004 and 2003, respectively, from cash balances held in Canadian dollars. We utilize United States dollars as our functional and reporting currency.

Based on these factors, we incurred a loss of approximately \$7.9 million or \$0.10 per share for the six months ended June 30, 2004, as compared to a loss of approximately \$2.8 million or \$0.06 per share, for the six months ended June 30, 2003.

### FINANCIAL CONDITION AND LIQUIDITY:

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At June 30, 2004 we had cash and cash equivalent balances of approximately \$12.5 million as compared to approximately \$31.7 million at December 31, 2003 and March 31, 2003.

Operating activities used \$6.0 million of cash during the six months ended June 30, 2004. Net cash used by operating activities was impacted by higher operating and administrative charges during the first six months of 2004 when compared to 2003. These charges included higher fixed costs at the mine sites and miscellaneous costs at the corporate office.

Investing activities used \$21.6 million of cash during the six months ended June 30, 2004. The significant increase in the amount of cash used in investing activities was primarily due to increased spending on property, plant and equipment relating to the development at the Standard Mine and Black Fox

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Project. The Company also increased its investment in short term investments during the quarter by \$1.6 million. These short term investments are cash equivalents that are invested in terms longer than 90 days.

Financing activities for the six months ended June 30, 2004 included the exercise of warrants and options in the amount of \$8.9 million. On March 21, 2004, the original Apollo Gold Corporation warrants expired.

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We believe our cash requirements for the development of the Black Fox Mine and the Standard Mine will be approximately \$60.0 million. We expect these expenditures to be funded through a combination of cash on hand, short term investments one or more of, future cash flows from operations and debt or equity security issuances. Our ability to raise capital is highly dependent upon the commercial viability of our projects and the associated prices of the metals we produce. Because of the impact that significant changes in the prices of silver, gold, lead and zinc have on our financial condition, declines in these metals prices may negatively impact our ability to raise additional funding for long-term projects.

During the year ended December 31, 2003 the Company entered into a \$5 million Revolving Loan, Guaranty and Security Agreement with Standard Bank London Limited ("Standard Bank"). The Company had to satisfy certain requirements in order for Standard Bank to advance the maximum amount of the loan. As of June 30, 2004, this agreement was terminated by the Company. The "hedge position" of 42,000 ounces will remain and be delivered into at a rate of 4,000 ounces per month at a price of \$345 per ounce until April of 2005 (assuming that the gold price stays above that price) as agreed to.

The Company has previously announced that the \$12.5 million in cash and short-term investments, as noted above, would not be sufficient, without curtailment of some of our capital and development activities. External financing would be needed to carry out the following plans: a). progressing Black Fox through Feasibility and continue to add reserves b). commence drilling at the Huizopa project c). finish the stripping at program at Montana Tunnels and bring this mine into a cash positive situation and d). complete the construction of the Standard mine.

The Company is pleased to report that it is well advanced in discussions regarding various financing opportunities and expects to be able to raise \$10-\$15 million in September 2004.

The above mentioned financing would be used for capital and development programs at Montana Tunnels of up to approximately \$8.0 million, the Standard Mine of up to approximately \$2.0 million, the Black Fox project of up to approximately \$4.2 million and Huizopa exploration of up to approximately \$1.5 million. There can be no assurance that the required financing will be available on acceptable terms or at all.

If all or any portion of the contemplated financing is not available on acceptable terms, we plan to focus our efforts on completing the stripping at Montana Tunnels and the development of the Standard Mine. Depending on our available cash, we could defer further mining at our Florida Canyon operation, while generating cash by recovering gold from the leach pad. We also would defer most expenditures at Black Fox and Huizopa.

### 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

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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 2 to the Consolidated Financial Statements included in our Form 10-K for the year ended December 31, 2003.

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Except as described in Note 2 of our interim financial statements for the three and six months ended June 30, 2004 our accounting policies did not differ from the policies used in the preparation of the financial statements at December 31, 2003.

### CONTRACTUAL OBLIGATIONS

The Company has several outstanding equipment leases and financings. As of June 30, 2004, nothing material has changed since the details released in the Company's 10-K Annual Report.

### ENVIRONMENTAL

As of June 30, 2004, we have accrued \$22.2 million related to reclamation, severance and other closure requirements, an increase from December 31, 2003 of \$0.6 million. This liability is covered by a combination of surety bonds, totaling \$34.4 million, and cash bonds totaling \$8.5 million, for a total reclamation surety, at June 30, 2004 of \$42.9 million. We have accrued what management believes is the present value of our best estimate of the liability as of June 30, 2004; however, it is possible that our obligation may change in the near or long term depending on a number of other factors.

### ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the past, we have not used hedging techniques to reduce our exposure to price volatility; however, we have entered into hedging contracts with the Standard Bank London Limited ("Standard Bank") for gold in the aggregate amount of 100,000 ounces involving the use of put and call options and forward contracts. The hedging contracts were a requirement of our working capital commitment facility. Beginning in April 2003, we are obligated to deliver 4,000 ounces of gold per month, for 25 months, under the following conditions: We purchased put options to cover the floor price of gold at US\$295 per ounce whereby if the price of gold decreases to a level below US\$295 per ounce, Standard Bank is obligated to purchase the 4,000 ounces for US\$295 per ounce. We also sold call options to Standard Bank whereby if the price of gold increases to over US\$345 per ounce, then we must sell 4,000 ounces to Standard Bank. We have the ability to roll forward the call options into forward sales contracts. At June 30, 2004, we have put and call options for 40,000 ounces of gold and forward sales contracts for 2,000 ounces of gold.

Our senior management, with approval of our board of directors, makes all decisions regarding our hedging techniques. We have no current plans to use hedging techniques in the future.

The following table sets forth the average daily closing prices of the following metals for 1980, 1985, 1990, 1995, 1998 and each year thereafter through December 31, 2003.

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	1980	1985	1990	1995	1998	1999	2000	2001
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Gold (1) (per ounces)	US\$612.56	US\$317.26	US\$383.46	US\$384.16	US\$294.16	US\$278.77	US\$279.03	US\$271
Silver (2) (per ounces)	US\$20.63	US\$6.14	US\$4.82	US\$5.19	US\$5.53	US\$5.25	US\$5.00	US\$4.3
Lead (3) (per lb.)	US\$0.41	US\$0.18	US\$0.37	US\$0.29	US\$0.24	US\$0.23	US\$0.21	US\$0.2
Zinc (4) (per lb.)	US\$0.34	US\$0.36	US\$0.69	US\$0.47	US\$0.46	US\$0.49	US\$0.51	US\$0.4

- 
- (1) London Final
  - (2) Handy & Harman
  - (3) London Metals Exchange -- Cash
  - (4) London Metals Exchange -- Special High Grade - Cash

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### MARKET PRICE OF GOLD

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The Company's earnings and cash flow are significantly impacted by changes in the market price of gold. Gold prices can fluctuate widely and are affected by numerous factors, such as demand, production levels, and economic policies of central banks, producer hedging, and the strength of the U.S. dollar relative to other currencies. During the five year period ended December 31, 2003, the average annual market price has fluctuated between \$271 per ounce and \$364 per ounce. During the first half of 2004, the spot price for gold improved and experienced highs in excess of US\$420.

There is certain market risks associated with the hedging contracts utilized by the Company. If the Company's counterparties fail to honor their contractual obligation to purchase gold at agreed-upon prices, the Company may be exposed to market price risk by having to sell gold in the open market at prevailing prices. Similarly, if the Company fails to produce sufficient quantities of gold to meet its forward commitments, the Company would have to purchase the shortfall in the open market at prevailing prices. At June 30, 2004, the fair value of the contracts is a loss of \$2,192,000 (December 31, 2003 the loss calculation was - \$5,911,000).

### FOREIGN CURRENCY

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The Company currently conducts development activities in Canada, while the price of gold is denominated in U.S. dollars, and the Company's gold production operations are in the United States. Therefore, the Company has minimal, if any foreign currency exposure.

### ITEM 4: CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and

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procedures are as defined in Exchange Act Rules 13(a)-15(e) and 15(d) - 15(e) as of the end of the period covered by this report. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of certain events, and there can be no assurance that any design will succeed in achieving its stated goals under all future conditions, regardless of how remote. In addition, we reviewed our internal controls, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of their last evaluation.

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### PART II: -- OTHER INFORMATION

#### ITEM 1: LEGAL PROCEEDINGS

None

#### ITEM 2: CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended June 30, 2004 218,678 common shares were issued as a result of warrants exercised at a price of \$1.60 per common share and stock options exercised at a price of \$0.80. An additional 218,678 shares were issued in total. The net proceeds from this activity was \$0.3 million for the quarter. An additional 48,978 shares were issued for a portion of the Company's initial contribution for its share in the Huizopa project.

#### ITEM 3: DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

#### ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The following matters were voted upon at the annual meeting of shareholders held on May 20, 2004:

- (a) Election of seven directors.
- (b) Authority for issuance of up to 79,017,575 common shares in private placements within 12 months.
- (c) Retention of Deloitte and Touche LLP Chartered Accountants as external auditing until the next annual general meeting.

All matters voted on at the annual general meeting were approved. The voting results were as follows:

ELECTION OF DIRECTOR -----	FOR	AGAINST	ABSTAIN
G. Michael Hobart	33,865,742	51,037	0
R. David Russell	33,865,742	51,037	0
Gerald J. Schissler	33,865,742	51,037	0
Charles E. Stott	33,865,742	51,037	0
G.W. (Bill) Thompson	33,865,742	51,037	0
W.S. (Steve) Vaughan	33,865,742	51,037	0
Robert A. Watts	33,865,742	51,037	0

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Authority to Issue Shares	11,600,205	9,878,301	7
Retention of Deloitte and Touche	33,860,410	33,144	0

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ITEM 5: OTHER INFORMATION.

None.

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

Exhibit No.	Title of Exhibit
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(a) Exhibits:

- |      |   |  |   |
|------|---|--|---|
| 31.1 | - | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | 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 | Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act |
| 32.1 | - | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act |
| 32.2 | - | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act | Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act |

(b) Reports filed on Form 8-K during the quarter ended June 30, 2004:

A report on Form 8-K was furnished to the Securities and Exchange Commission on May 12, 2004 pursuant to Item 12 to announce financial results for the first quarter of 2004.

A report on Form 8-K was furnished to the Securities and Exchange Commission on June 30, 2004 pursuant to Item 5 to announce the termination of the loan agreement with Standard Bank.

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### SIGNATURES

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

APOLLO GOLD CORPORATION

Date: August 13, 2004	/s/ R. David Russell ----- R. David Russell, President and Chief Executive Officer
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Date: August 13, 2004	/s/ R. Llee Chapman ----- R. Llee Chapman, Chief Financial Officer
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### EXHIBIT INDEX

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