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APOLLO GOLD CORP  
Form 10-Q  
May 17, 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 March 31, 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  No

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

At May 6, 2004, there were 79,494,342 common shares of Apollo Gold Corporation outstanding.

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STATEMENTS REGARDING FORWARD LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 21e of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expects", "anticipates", "intends", "believes", or similar language. These forward-looking statements involve risks, uncertainties and other factors. All forward-looking statements included in this document are based on information available to us on the date hereof and speak only as of the date hereof. The factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2003 (the "Annual Report") are among those factors that, in some cases, have affected our results and could cause the actual results to differ materially from those projected in the forward-looking statements.

ACCOUNTING PRINCIPLES, REPORTING CURRENCY AND OTHER INFORMATION

Apollo Gold Corporation prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and publishes its financial statements in United States dollars. This Quarterly Report on Form 10-Q should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report, as well as our annual financial statements for the fiscal year ended December 31, 2003 included in our Annual Report filed with the SEC. Certain classifications have been made to the prior period financial statements to conform with the current period presentation.

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

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

NON-GAAP FINANCIAL INFORMATION

The cash operating, total cash and total production costs are non - GAAP financial measures and are used by management to assess performance of individual operations as well as a comparison to other gold producers.

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The term "cash operating costs" is used on a per ounce of gold basis. Cash operating costs per ounce is equivalent to direct operating expense, less production royalties and mining taxes but includes by-product credits for payable silver, lead and zinc. We have included cash operating costs information to provide investors with information about the cost structure of our mining operations.

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

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

This information differs from measures of performance determined in accordance with generally accepted accounting principles (GAAP) in Canada and the United States and should not be considered in isolation or a substitute for measures of performance prepared in accordance with GAAP. These measures are not necessarily indicative of operating profit or cash flow from operations as determined under GAAP and may not be comparable to similarly titled measures of other companies.

### ITEM 1: FINANCIAL STATEMENTS

These consolidated financial statements should be read in conjunction with the financial statements, accompanying notes and other relevant information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission on March 30, 2004.

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

	MARCH 31, 2004	December 31, 2003
	----- (UNAUDITED)	----- (Audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 23,767	\$ 25,851
Short-term investments	7,912	5,855
Accounts receivable	4,779	4,647
Prepays	404	552
Broken ore on leach pad	10,155	9,594
Inventories (Note 3)	3,048	2,839
	-----	-----
BROKEN ORE ON LEACH PAD	50,065	49,338
	1,934	1,827
PROPERTY, PLANT AND EQUIPMENT (Note 4)	40,662	38,519
DEFERRED STRIPPING COSTS	27,549	24,033
RESTRICTED CERTIFICATE OF DEPOSIT	6,938	6,893

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	\$ 127,148	\$ 120,610
=====		
LIABILITIES		
CURRENT		
Accounts payable	\$ 5,420	\$ 5,848
Accrued liabilities	2,682	2,781
Notes payable	3,855	4,117
Property and mining taxes payable	1,052	1,080
	-----	-----
	13,009	13,826
NOTES PAYABLE	2,803	3,275
ACCRUED SITE CLOSURE COSTS	21,899	21,619
	-----	-----
	37,711	38,720
-----		
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	130,181	120,624
Issuable common shares	231	231
Contributed surplus (Note 5)	12,006	7,172
Deficit	(52,981)	(46,137)
	-----	-----
	89,437	81,890
	-----	-----
	\$ 127,148	\$ 120,610
=====		

APPROVED ON BEHALF OF THE BOARD

G.W. Thompson, Director

Robert Watts, Director

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

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

	Three months ended March 31,	
	2004	2003
	-----	-----
REVENUE		
Revenue from sale of minerals	\$ 20,079	\$ 8,816
-----		
OPERATING EXPENSES		

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Direct operating costs	17,151	5,642
Depreciation and amortization	1,320	1,302
General and administrative expenses	1,730	1,272
Stock-based compensation	27	271
Accretion expense	345	320
Royalty expense	210	219
Exploration and business development	139	950
	20,922	9,976
OPERATING LOSS	(843)	(1,160)
OTHER INCOME (EXPENSES)		
Interest income	148	43
Interest expense	(110)	(149)
Foreign exchange (loss) gain and other	(188)	494
NET LOSS FOR THE PERIOD	(993)	(772)
DEFICIT, BEGINNING OF PERIOD	(46,137)	(43,951)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING POLICY (Note 2 (a))	(5,851)	-
ADJUSTED OPENING BALANCE	(51,988)	(43,951)
DEFICIT, END OF PERIOD	\$ (52,981)	\$ (44,723)
NET LOSS PER SHARE, BASIC AND DILUTED	\$ (0.01)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	74,654,540	47,301,752

The accompanying notes are an integral part  
of these interim 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 March 31,	
	2004	2003
OPERATING ACTIVITIES		
Net loss for the period	\$ (993)	\$ (772)
Items not affecting cash		
Depreciation and amortization	1,320	1,302
Stock-based compensation	27	271
Accretion expense	345	320
Other	(66)	(51)
Net change in non-cash operating working capital items	(1,416)	1,603

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	(783)	2,673
-----		
INVESTING ACTIVITIES		
Property, plant and equipment expenditures	(3,123)	(1,434)
Deferred stripping costs	(3,515)	(3,511)
Short-term investments	(2,057)	-
Restricted Certificate of Deposit	(45)	(696)
	(8,740)	(5,641)
-----		
FINANCING ACTIVITIES		
Proceeds from exercise of warrants and options	8,561	(2,330)
Acquisition and cancellation of shares	(48)	-
Payments of notes payable	(1,074)	(815)
	7,439	(3,145)
-----		
NET DECREASE IN CASH	(2,084)	(6,113)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	25,851	8,426
-----		
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 23,767	\$ 2,313
=====		

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid	\$ 110	\$ 156
=====		
Income taxes paid	\$ -	\$ -
=====		

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

During the three months ended March 31, 2003, property, plant and equipment totaling \$1,587,000 was acquired under capital lease obligations.

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

APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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

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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.

### 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.

#### (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.

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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### 2. ACCOUNTING POLICIES (CONTINUED)

#### (a) Stock-based compensation (continued)

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:

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	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.

3. INVENTORIES

Inventories consist of:

	MARCH 31, 2004	December 31, 2003
	-----	-----
Concentrate inventory	\$ 124	\$ 98
Dore inventory	47	56
Materials and supplies	2,877	2,685
	-----	-----
	\$ 3,048	\$ 2,839
	=====	=====

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTH PERIOD ENDED MARCH 31, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

4. PROPERTY, PLANT AND EQUIPMENT

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

	MARCH 31, 2004	December 31, 2003
	-----	-----
	Accumulated	Net Book
	Net Book	Net Book



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	Cost	Depreciation	Value	Value
	-----	-----	-----	-----
Mine assets				
Building, plant and equipment	\$15,000	\$ 3,802	\$ 11,198	\$ 10,643
Mining properties and development costs	27,911	5,914	21,997	20,412
	-----	-----	-----	-----
	42,911	9,716	33,195	31,055
Mineral rights	7,467	-	7,467	7,464
	-----	-----	-----	-----
Total property, plant and equipment	\$50,378	\$ 9,716	\$ 40,662	\$ 38,519
	=====	=====	=====	=====

5. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares with no par value.

(b) Issued and outstanding

	Shares	Amount	Contributed Surplus
	-----	-----	-----
Balance, December 31, 2003 as previously reported	73,539,790	\$120,624	\$ 7,172
Cumulative effect of change in accounting policy (Note 2 (b))	-	257	5,594
	-----	-----	-----
Adjusted balance, December 31, 2003	73,539,790	120,881	12,766
Warrants exercised	5,227,875	8,335	-
Options exercised	248,844	602	(403)
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)
Stock-based compensation	-	-	27
	-----	-----	-----
Balance, March 31, 2004	79,276,732	\$130,181	\$ 12,006
	=====	=====	=====

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

5. SHARE CAPITAL (CONTINUED)

(c) Warrants

As at March 31, 2004, 3,000,000 warrants with an exercise price of

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\$2.10 and an expiry date of December 23, 2006 remained outstanding.

(d) Share purchase options

(i) A summary of information concerning outstanding stock options at March 31, 2004 is as follows:

	Fixed Stock Options		Performance-based Stock Options	
	Number of Common Shares	Weighted Average Exercise Price	Number of Common Shares	Weighted Average Exercise Price
Balances, December 31, 2003	1,887,300	\$ 2.20	2,500,154	\$ 0.80
Options granted	502,700	2.07	-	-
Options exercised	-	-	(248,844)	0.80
Options cancelled	(34,000)	2.25	(190,602)	0.80
Balances, March 31, 2004	2,356,000	\$ 2.17	2,060,708	\$ 0.80

(ii) The following table summarizes information concerning outstanding and exercisable fixed stock options at March 31, 2004:

Options Outstanding			Options Exercisable	
Number Outstanding	Expiry Date	Weighted Average Exercise Price per Share	Number Exercisable	Weighted Average Exercise Price per Share
1,591,400	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	-	-
150,000	August 22, 2013	2.12	-	-
100,000	November 13, 2013	1.67	-	-
442,000	March 10, 2014	2.05	-	-
2,356,000		\$ 2.17	797,000	\$ 2.24

(iii) As at March 31, 2004, the 2,060,708 performance-based stock options were fully vested and have an expiry date of June 25, 2007.

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTH PERIOD ENDED MARCH 31, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

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### 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:

	Three months ended March 31,	
	2004	2003
Risk free interest rate	2.8%	3.5%
Dividend yield	0%	0%
Volatility	54%	79%
Expected life in years	5	5

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 March 31, 2003	
Net loss		
As reported	\$	(772)
Pro forma stock option expense		(954)
	\$	(1,726)
=====		
Basic and diluted loss per share		
As reported	\$	(0.02)
Pro forma	\$	(0.04)
=====		

### 6. INCOME TAXES

The Company did not record a recovery for income taxes for the period ended March 31, 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  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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## 7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Gold hedges

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 March 31, 2004 there are 52,000 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 9,200 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 March 31, 2004, the fair value of the contracts is a loss of approximately \$5.2 million (December 31, 2003 - \$5.9 million).

The contracts mature as follows:

	Ounces of Gold
	-----
2004	45,200
2005	16,000
	-----
	61,200
	=====

## 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.

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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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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTH PERIOD ENDED MARCH 31, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

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### 8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### (c) Bank indebtedness

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 must satisfy certain requirements in order for Standard Bank to advance the maximum amount of the loan. Until the commitment under the line of credit expires or has been terminated, the Company must meet certain covenants. As of March 31, 2004, the Company has no amount outstanding under the revolving loan and is in compliance with the covenants.

### 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 March 31, 2004 are as follows:

	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
	-----	-----	-----	-----	-----
Cash and cash equivalents	\$ 109	\$ 63	\$ 16	\$ 23,579	\$ 23,767
Short-term investments	-	-	-	7,912	7,912
Broken ore on leach pad - current	-	10,155	-	-	10,155
Other non-cash current assets	5,230	2,660	175	166	8,231
	-----	-----	-----	-----	-----
	5,339	12,878	191	31,657	50,065
Broken ore on leach pad - long-term	-	1,934	-	-	1,934
Property, plant and equipment	15,673	13,510	10,922	557	40,662
Deferred stripping costs	27,549	-	-	-	27,549

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Restricted certificate of deposit	2,882	3,642	373	41	6,938
-----					
Total assets	\$ 51,443	\$ 31,964	\$11,486	\$ 32,255	\$127,148
=====					
Current liabilities	\$ 5,858	\$ 5,892	\$ 795	\$ 464	\$ 13,009
Notes payable	1,007	1,796	-	-	2,803
Accrued site closure costs	9,189	12,710	-	-	21,899
-----					
Total liabilities	\$ 16,054	\$ 20,398	\$ 795	\$ 464	\$ 37,711
=====					

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

9. SEGMENTED INFORMATION (CONTINUED)

Amounts as at December 31, 2003 are as follows:

	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
-----					
Broken ore on leach pad - long-term	6,099	11,876	166	31,197	49,338
Property, plant and equipment	-	1,827	-	-	1,827
Deferred stripping costs	15,559	13,529	8,914	517	38,519
Restricted certificate of deposit	24,033	-	-	-	24,033
	2,663	3,809	377	44	6,893
-----					
Total assets	\$ 48,354	\$ 31,041	\$9,457	\$ 31,758	\$120,610
=====					
Current liabilities	\$ 6,140	\$ 6,515	\$ 507	\$ 664	\$ 13,826
Notes payable	980	2,295	-	-	3,275
Accrued site closure costs	9,148	12,471	-	-	21,619
-----					
Total liabilities	\$ 16,268	\$ 21,281	\$ 507	\$ 664	\$ 38,720
=====					

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)

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(UNAUDITED)

9. SEGMENTED INFORMATION (CONTINUED)

Amounts for the three month periods ended March 31, 2004 and 2003, respectively, are as follows:

	THREE MONTHS ENDED MARCH 31, 2004				
	Montana Tunnels	Florida Canyon	Black Fox	Corporate and Other	Total
Revenue from sale of minerals	\$ 11,624	\$ 8,455	\$ -	\$ -	\$20,079
Direct operating costs	10,200	6,951	-	-	17,151
Depreciation and amortization	576	717	-	27	1,320
General and administrative expenses	-	-	-	1,730	1,730
Share-based compensation	-	-	-	27	27
Accretion expense	41	304	-	-	345
Royalty expense	-	210	-	-	210
Exploration and business development	-	-	-	139	139
	10,817	8,182	-	1,923	20,922
Operating income (loss)	807	273	-	(1,923)	(843)
Interest income	-	-	-	148	148
Interest expense	(44)	(66)	-	-	(110)
Foreign exchange loss and other	-	-	-	(188)	(188)
Net income (loss)	\$ 763	\$ 207	\$ -	\$ (1,963)	\$ (993)
Investing activities					
Property, plant and equipment expenditures	\$ 350	\$ 699	\$2,007	\$ 67	\$ 3,123
Deferred stripping expenditures	3,515	-	-	-	3,515

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTH PERIOD ENDED MARCH 31, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

9. SEGMENTED INFORMATION (CONTINUED)

Three months ended March 31, 2003

Montana Florida Black Corporate

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	Tunnels	Canyon	Fox	and Other	Total
Revenue from sale of minerals	\$ -	\$ 8,816	\$ -	\$ -	\$ 8,816
Direct operating costs	-	5,642	-	-	5,642
Depreciation and amortization	-	1,288	-	14	1,302
General and administrative expenses	-	-	-	1,272	1,272
Share-based compensation	-	-	-	271	271
Accretion expense	78	242	-	-	320
Royalty expense	-	219	-	-	219
Exploration and business development	-	-	767	183	950
	78	7,391	767	1,740	9,976
Operating (loss) income	(78)	1,425	(767)	(1,740)	(1,160)
Interest income	-	-	-	43	43
Interest expense (income)	(54)	(95)	-	-	(149)
Foreign exchange (loss) gain and other	(17)	-	1	510	494
Net (loss) income	\$ (149)	\$ 1,330	\$ (766)	\$ (1,187)	\$ (772)
Investing activities					
Property, plant and equipment expenditures	\$ 278	\$ 2,487	\$ 140	\$ 116	\$ 3,021
Deferred stripping expenditures	3,511	-	-	-	3,511

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APOLLO GOLD CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTH PERIOD ENDED MARCH 31, 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 month periods ended March 31, 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  
MARCH 31, 2004

Property, Plant and Equipment	Deferred Stripping Costs	Accounts Payable	Other Liabilities
-------------------------------------	--------------------------------	---------------------	----------------------



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As at March 31, 2004						
Canadian GAAP	\$ 40,662	\$ 27,549	\$ 5,420	-	\$130	
Convertible debenture (a)	-	-	-	-	-	
Gold hedge loss (c)	-	-	(220)	5,198		
Impairment of property, plant and equipment and capitalized deferred stripping costs and change in depreciation and amortization (d)	(5,401)	(8,585)	-	-		
Flow-through common shares (e)	-	-	-	-		
Black Fox development costs (f)	(5,638)	-	-	-		
As at March 31, 2004						
U.S. GAAP	\$ 29,623	\$ 18,964	\$ 5,200	\$ 5,198	\$129	

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 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,						



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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.

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APOLLO GOLD CORPORATION  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 THREE MONTH PERIOD ENDED MARCH 31, 2004  
 (STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
 (UNAUDITED)

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

(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		
March 31, as reported	\$ (3,380)	\$ (198)
Stock option expense as reported	27	450
Pro forma stock option expense	(27)	(954)
<hr/>		
Net loss - pro forma	\$ (3,380)	\$ (702)
<hr/>		
Net loss per share, basic - for the three month		
period ended March 31	\$ (0.05)	\$ (0.00)
Stock option expense as reported	0.00	0.01
Pro forma stock option expense	(0.00)	(0.02)
<hr/>		
Net loss per share, basic - pro forma	\$ (0.05)	\$ (0.01)
<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

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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.

Under Canadian GAAP, gains or losses on spot deferred forward contracts are recognized as an adjustment of revenue in the period when the originally designated production is sold. Under U.S. GAAP, SFAS 133 requires that for hedge accounting to be achieved, a company must provide detailed documentation and must specifically designate the effectiveness of a hedge. Changes in fair value of these contracts are recorded in the consolidated statement of operations.

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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

- (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.

- (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 \$5,638,000 has been recorded as at March 31, 2004.

- (g) Statement of cash flows

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Under Canadian GAAP, expenditures incurred for deferred stripping costs are included in cash flows from investing activities in the consolidated statement of cash flows. Under U.S. GAAP, these expenditures are included in cash flows from operating activities. Accordingly, under U.S. GAAP, the consolidated statement of cash flows for the three month periods ended March 31, 2004 and 2003 would reflect a reduction in cash utilized in investing activities of \$3,515,000 and \$3,511,000, respectively, and a corresponding increase in cash utilized in operating activities.

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APOLLO GOLD CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTH PERIOD ENDED MARCH 31, 2004  
(STATED IN UNITED STATES DOLLARS; TABULAR AMOUNTS IN THOUSANDS)  
(UNAUDITED)

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

#### (h) Comprehensive income

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

#### (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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### 11. SUBSEQUENT EVENT

Subsequent to March 31, 2004, the Company entered into an earn-in joint venture agreement to explore the Huizopa Gold project located in the Sierra Madre Gold Belt in the State of Chihuahua, Mexico. The Company has the option to earn a 51% interest through the issuance of 48,978 shares of the Company, incurring approximately \$3 million in an exploration and drilling program and \$2.2 million in land payments over the next four years. The Company may increase its share to 71% in the project through the completion of a feasibility study and the commencement of commercial production.

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

The following presents a discussion of the financial condition and results of operations of the Company for the three months ended March 31, 2004 and 2003.

#### BACKGROUND AND RECENT DEVELOPMENTS

We are principally engaged in the exploration, development and mining of gold. We have focused our efforts to date on two principal properties: our Montana Tunnels Mine, owned by one of our subsidiaries, Montana Tunnels Mining, Inc. and our Florida Canyon Mine, owned by another one of our subsidiaries, Florida Canyon Mining, Inc. Our mine development activities involve our Black Fox property, located in Ontario, Canada and our Standard Mine property, owned by one of our subsidiaries, Standard Mining Inc. During 2003, Standard Mining Inc. acquired and incorporated into its 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 by Apollo Gold Exploration Inc. at the Willow Creek property (which is located in the vicinity of the Florida Canyon operation).

We own and operate the Florida Canyon Mine, 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. 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 intend to pre-strip approximately 17 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.

We have two development stage properties, the Black Fox Property ("Black Fox"), located near Timmins, Ontario, and the Standard Mine Project (including the new Buffalo Canyon component), owned by our wholly-owned subsidiary Standard Gold Mining Inc., located in Nevada. We also own several exploration assets including the Willow Creek claim block, the Pirate Gold Project, and Nugget Fields, each located in Nevada and owned by our wholly-owned subsidiary, Apollo

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Gold Exploration, Inc., a Delaware corporation.

In 2003, we focused our exploration 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 have identified proven and probable reserves at the Black Fox Property.

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Upon completion of the first phase, we began the second phase of our Black Fox Project development in February 2004. The second phase will provide for the development of underground access for further exploratory drilling. We are developing an underground ramp from the existing structures. We also plan to begin the permitting process for the third phase of the Black Fox project, and anticipate that this process will require approximately two years, based on a plan for combined open pit and underground mining, with on-site milling, at a capacity of 1500 metric tonnes of ore per day. The third phase would include construction of the mine and processing facilities.

We have continued drilling at the Standard Mine and drilled approximately 80 holes in 2003. 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 for commercialization, and plan to conduct follow-up drilling in 2004. Because of our 2003 drilling program at the Standard Mine, we were able to add to the proven and probable reserves at the property. Construction of the facilities is scheduled to begin in the second half of 2004 with an expected total cost of \$7.5 million.

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

### APOLLO GOLD CORPORATION PRODUCTION & METALS PRICE AVERAGES

	2003	2002	2001	2000
	-----	-----	-----	-----
Gold (Ounces)	145,935	148,173	192,887	259,863
Silver (Ounces)	471,241	275,925	963,050	1,257,972
Lead (Pounds)	10,843,184	5,481,230	13,759,579	12,141,771
Zinc (Pounds)	21,792,452	15,328,392	40,158,321	31,689,125
<b>AVERAGE METAL PRICES:</b>				
Gold - London Bullion Mkt. (\$/ounce)	\$ 364	\$ 310	\$ 271	\$ 279
Silver - London Bullion Mkt. (\$/ounce)	\$ 4.88	\$ 4.59	\$ 4.37	\$ 5.00
Lead - LME (\$/pound)	\$ 0.23	\$ 0.20	\$ 0.22	\$ 0.21
Zinc - LME (\$/pound)	\$ 0.38	\$ 0.35	\$ 0.40	\$ 0.51

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

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APOLLO GOLD CORPORATION

RESULTS OF OPERATIONS

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THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

Our revenues for the three months ended March 31, 2004 were approximately \$20.1 million derived primarily from the sale of 33,170 ounces of gold. This compares to approximately \$8.8 million derived primarily from the sale of 25,057 ounces of gold for the same period in 2003. The average price received for gold for the first three months of 2004 and 2003 was \$383 and \$349 per ounce, respectively. Our revenues for silver, zinc and lead for the three months ended March 31, 2004 were \$7.4 million compared to \$0.1 million during the same period 2003. The growth in revenue in 2004 was due to an increase in mining activity in that year. During the three months ended March 31, 2003, the Montana Tunnels Mine was in the development stage whereby all revenues and production was accounted for as an offset to the deferred mining costs, therefore, the only revenues for this period came from the Florida Canyon Mine.

Sales of minerals from our Florida Canyon Mine accounted for 42.1% of our revenues for the three months ended March 31, 2004, with the remaining 57.9% of revenues derived from sales of minerals from our Montana Tunnels Mine. In the three months ended March 31, 2004, we received approximately 63% of our revenue from sales of gold and 37% from sales of silver, zinc and lead compared to 99% from the sales of gold and 1% from the sales of silver, zinc and lead for the same period in 2003.

We sold 33,170 ounces of gold in the first quarter 2004 at a total cash cost of \$302 per ounce, compared to 25,057 ounces at a total cash cost of \$231 in the first quarter 2003. The increase is primarily attributable to increased production at Montana Tunnels, which commenced production in April 2003.

Montana Tunnels  
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During the first quarter of 2004, 7.4 million tons of waste were 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 13.9 million tons removed. Revenues at Montana Tunnels are slightly behind our projections as the gold ore grades are slightly less than planned. In addition the coarse ore handling system continues to plug up leading to lower mill throughputs. Mill throughput should improve as modifications are completed in the second quarter to the crushing circuit.

Following are the key statistics for the Montana Tunnels operation for the first quarter of 2004. There are no comparatives for the first quarter of 2003 as the mine commenced production in April of 2003.

2004  
FIRST  
QUARTER  
-----

Tons Mined	8,932,282
Tons Milled	1,108,589



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Production:	
Gold Ounces	10,783
Silver Ounces	118,758
Lead Pounds	3,143,393
Zinc Pounds	9,040,272
Total cash costs	\$ 278
Total production costs	\$ 332

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2004  
FIRST  
QUARTER  
-----

Total Revenue (\$millions)	\$	11.6
Capital Expenditures (\$millions)	\$	3.8

Florida Canyon  
-----

At Florida Canyon, we produced 22,387 ounces of gold at a total cash cost of \$314 per ounce for the three months ended March 31, 2004 as compared to 25,057 ounces of gold at a total cash cost of \$231 per ounce for the same period in 2003. This lower production and higher total cash cost was a direct result of lower ore grades and longer recovery time.

Following are key operating statistics at Florida Canyon for the first quarter of 2004 compared to 2003:

	2004 FIRST QUARTER -----	2003 FIRST QUARTER -----
Tons Mined	6,389,682	5,289,332
Gold Production	22,387	25,057
Silver Production	22,756	13,763
Total cash costs	\$ 314	\$ 231
Total production costs	\$ 346	\$ 313
Total Revenue (\$millions)	\$ 8.5	\$ 8.8
Capital Expenditures:		
Florida Canyon	\$ 0.2	\$ 1.8
Standard Mine	\$ 0.6	\$ 0.7

We anticipate commencing construction at the Standard Mine in the second quarter 2004. We will operate this mine as a satellite of the Florida Canyon Mine. We currently project production rates of 100,000 to 130,000 ounces of gold on an annual basis for the combined operation.

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Based on gold reserves, priced at approximately US\$350.00 per ounce, we expect the Montana Tunnels Mine, the Florida Canyon Mine and the Standard Mine, collectively, to produce approximately 170,000 ounces of gold at a total cash cost of approximately \$260 per ounce in 2004.

Our direct operating costs equaled approximately \$17.2 million and \$5.6 million for the three months ended March 31, 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 only as Montana Tunnels was in development. We incurred depreciation and amortization expenses of approximately \$1.3 million for the three months ended March 31, 2004 as compared to \$1.3 million for the same period 2003.

We incurred approximately \$1.7 million and \$1.3 million for the three months ended March 31, 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 and Other Stock-Based Payments. As a result, we incurred share-based compensation of

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approximately \$0.03 million in 2004 compared to \$0.3 million in the same period of 2003. We also show the cumulative effect 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 in 2002 as well as our employee stock option incentive plan.

Our expenses for exploration and development, consisting of drilling and related expenses at our exploration properties, totaled approximately \$0.1 million and \$1.0 million for the three months ended March 31, 2004 and 2003, respectively. The reduction in expenditures is due to 2003 expenses on the Black Fox Project being expensed, whereas currently these projects are classified as development projects and therefore their expenses are capitalized for accounting purposes.

As a result of these expense components, our operating expenses totaled approximately \$20.9 million for the three months ended March 2004, as compared to approximately \$10.0 million for the same period in 2003. The difference is attributable to the addition of Montana Tunnels operating expenses for the first quarter of 2004 following its development in 2003.

We realized interest income of approximately \$148,000 during the three months ended March 31, 2004. We incurred interest expense of approximately \$110,000 in the same period, primarily for equipment leases. We realized \$43,000 in interest income but incurred net interest expense of approximately \$149,000 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 \$188,000 and foreign exchange gains of approximately \$494,000 during the three months ended March 31, 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 \$1.0 million or \$0.01 per share for the three months ended March 31, 2004, as compared to a loss of approximately \$0.8 million or \$0.02 per share, for the three months ended March 31, 2003.

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### LIQUIDITY AND CAPITAL RESOURCES

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At March 31, 2004 and December 31, 2003 we had cash and cash equivalents (including short-term investments) of approximately \$31.7 million.

Operating activities used \$0.8 million of cash during the three months ended March 31, 2004. Net cash used by operating activities was impacted by higher operating and administrative charges during the first quarter of 2004 when compared to 2003. These charges included higher fixed costs at the mine sites as well as salaries, legal and accounting costs at the corporate office.

Investing activities used \$8.7 million of cash during the three months ended March 31, 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 Project. The Company also increased its short term investments during the quarter by \$2.1 million. These short term investments are cash equivalents that are invested in terms longer than 90 days.

Financing activities for the three months ending on March 31, 2004 included the exercise of warrants and options in the amount of \$8.5 million. On March 21, 2004, the original Apollo Gold Corporation warrants expired. During the first quarter of 2004, 5.3 million of these warrants were exercised, leaving 140,625 unexercised and expired.

We believe our cash requirements for the development of the Black Fox Mine and the Standard Mine

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will total approximately \$70.0 million over the next three years. We expect to spend \$10.8 million on Black Fox development and \$7.5 million on Standard Mine construction in 2004. Assuming a successful feasibility study at Black Fox, we expect to spend approximately \$52 million on Black Fox construction and development during 2005 and 2006. We expect these expenditures to be funded through a combination of cash on hand (\$31.7 million at March 31), future cash flows from operations, and external financing which may include bank loans and future 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. The Company must satisfy certain requirements in order for Standard Bank to advance the maximum amount of the loan. Until the commitment under the line of credit expires or has been terminated, the Company must meet certain covenants. As of March 31, 2004, \$2.8 million was available under the loan agreement, and the Company has no amount outstanding under the revolving loan and is in compliance with the covenants.

### DIFFERENCES BETWEEN CANADIAN AND US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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(GAAP)

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The Company reports under Canadian Generally Accepted Accounting Principles

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and reconciles to US Generally Accepted Accounting Principles. The application of US GAAP has a significant effect on the net loss and net loss per share. For a detailed explanation see Note 10 of our interim financial statements.

### CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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The preparation of financial statements in conformity with generally accepted accounting principals requires management to make a variety of estimates and assumptions that effect 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.

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

### CONTRACTUAL OBLIGATIONS

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The Company has several outstanding equipment leases and financings. As of March 31, 2004, there are no material changes from the information presented in the Company's Annual Report.

### ENVIRONMENTAL

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As of March 31, 2004, we have accrued \$21.9 million related to reclamation, severance and other closure requirements, an increase from December 31, 2003 of \$0.3 million. This liability is covered by a combination of surety bonds, totaling \$32.0 million, and cash bonds totaling \$6.8 million, for a total reclamation surety, at March 31, 2004 of \$38.8 million. We have accrued what management believes is the present value of our best estimate of the liability as of March 31, 2004; however, it is possible that our obligation may change in the near or long term depending on a number of factors, including finalization of settlement terms, ruling from the courts and other factors.

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### SUBSEQUENT EVENTS

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Subsequent to March 31, 2004 the Company entered into an earn-in joint venture agreement to explore the Huizopa Gold project located in the Sierra Madre Gold Belt in the State of Chihuahua, Mexico. The Company has the option to earn a 51% interest through the issuance of 48,978 shares of the Company, incurring approximately \$3 million in an exploration and drilling program and \$2.2 million in land payments over the next four years. The Company may increase its share to 71% in the project through the completion off a feasibility study and the commencement of commercial production.

### 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

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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, thereby leaving any excess of the US\$345 ceiling for Standard Bank. We have the ability to roll forward the call options into forward sales contracts. At March, 2004, we have put and call options for 52,000 ounces of gold and forward sales contracts for 9,200 ounces of gold.

Our senior management, with approval of our board of directors, makes all decisions regarding our hedging techniques, and we have no formal corporate policy concerning such 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.

	1980 -----	1985 -----	1990 -----	1995 -----	1998 -----	1999 -----	2000 -----	2001 -----
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