

APOLLO GOLD CORP
Form 10-Q
November 14, 2008

**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 September 30, 2008

OR

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

Commission File Number: 001-31593

APOLLO GOLD CORPORATION
(Exact name of registrant as specified in its charter)

Yukon Territory, Canada
(State or other jurisdiction of
incorporation or organization)

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

**5655 South Yosemite St., Suite 200
Greenwood Village, Colorado 80111-3220**
(Address of principal executive offices) (Zip code)

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

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

Yes R No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," and "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (do not check if a
smaller reporting company)

Smaller Reporting Company

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

Yes No

At November 10, 2008, there were 219,860,257 common shares of Apollo Gold Corporation outstanding.

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STATEMENTS REGARDING FORWARD LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward looking statements as defined in the *Private Securities Litigation Reform Act of 1995* with respect to our financial condition, results of operations, business prospects, plans, objectives, goals, strategies, future events, capital expenditures, and exploration and development efforts.

Forward-looking statements can be identified by the use of words such as “may,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “continue,” or the negative of such terms, or other comparable terminology. The statements include comments regarding:

- plans for Black Fox and Huizopa, including development, exploration and drilling, and the ability to finance development;
- future financing of projects, including the contemplated \$60 to \$70 million debt financing for Black Fox and the approximately \$70 million financing required for the M-Pit expansion at Montana Tunnels;
- the cessation of ore mining at the Montana Tunnels mine, the amount of stockpiled ore upon cessation of mining and the timing of the processing thereof, future notices to employees at the Montana Tunnels mine and the amount of time required to conduct the pre-stripping program prior to production of ore at the M Pit;
- liquidity to support operations and debt repayment;
- timing and amount of future cash flows from the Montana Tunnels mine;
- the establishment and estimates of mineral reserves and resources;
- production and production costs;
- daily production and mill throughput rates;
- cash operating costs;
- total cash costs;
- grades of ore mined and milled;
- grade of concentrates produced;
- anticipated expenditures for development, exploration, and corporate overhead;
- timing and issue of permits, including the permits necessary to conduct the M-Pit expansion at Montana Tunnels;
- expansion plans for existing properties;
- estimates of closure costs;
- estimates of environmental liabilities;
- our ability to obtain financing to fund our estimated expenditure and capital requirements;
- factors impacting our results of operations; and
- the impact of adoption of new accounting standards.

These forward looking statements are subject to numerous risks, uncertainties and assumptions including: unexpected changes in business and economic conditions, including the recent significant deterioration in global financial and capital markets; significant increases or decreases in gold and zinc prices; changes in interest and currency exchange rates; changes in availability and cost of financing; timing and amount of production; unanticipated grade changes; unanticipated recovery or production problems; changes in mining and milling costs; operational problems at our mining properties; metallurgy, processing, access, availability of materials, equipment, supplies and water;

determination of reserves; changes in project parameters; costs and timing of development of new reserves; results of current and future exploration and development activities; results of future feasibility studies; joint venture relationships; political or economic instability, either globally or in the countries in which we operate; local and community impacts and issues; timing of receipt of government approvals; accidents and labor disputes; environmental costs and risks; competitive factors, including competition for property acquisitions; availability of external financing on reasonable terms or at all; and the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2007 under the heading "Risk Factors." Many of these factors are beyond our ability to control and predict. These factors are not intended to represent a complete list of the general or specific factors that may affect us. We disclaim any obligation to update forward looking statements, whether as a result of new information, future events or otherwise.

ACCOUNTING PRINCIPLES, REPORTING CURRENCY AND OTHER INFORMATION

Apollo Gold Corporation prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and publishes its financial statements in United States dollars. This Quarterly Report on Form 10-Q should be read in conjunction with our condensed 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, 2007 included in our Annual Report on Form 10-K.

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

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

NON-GAAP FINANCIAL INFORMATION

In this Quarterly Report on Form 10-Q, Apollo uses the terms “cash operating costs,” “total cash costs” and “total production costs,” each of which are considered non-GAAP financial measures as defined in the United States Securities and Exchange Commission Regulation S-K Item 10 and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with U.S. GAAP. These terms are used by management to assess performance of individual operations and to compare Apollo’s performance 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 cost, as found on the Consolidated Statements of Operations, less production royalty expenses and mining taxes but includes by-product credits for payable silver, lead and zinc.

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

The term “total production costs” is equivalent to total cash costs plus non-cash costs including depreciation and amortization.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

These condensed 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, 2007 filed with the Securities and Exchange Commission on March 25, 2008.

APOLLO GOLD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 7,612	\$ 4,852
Derivative instruments (Note 6)	605	2,101
Restricted certificates of deposit	1,000	1,000
Accounts receivable and other	2,556	1,846
Prepays	600	509
Inventories (Note 7)	4,941	2,169
Total current assets	17,314	12,477
Long-term investments (Note 6)	1,215	1,467
Property, plant and equipment	75,809	48,378
Deferred stripping costs	1,958	4,787
Restricted certificates of deposit	9,581	6,715
Other long-term assets	1,161	84
Future income tax assets	-	1,165
TOTAL ASSETS	\$ 107,038	\$ 75,073
LIABILITIES		
CURRENT		
Accounts payable	\$ 3,605	\$ 2,748
Accrued liabilities	1,787	2,940
Property and mining taxes payable	1,280	957
Notes payable and other current debt (Notes 8 and 15)	7,506	7,617
Convertible debentures	6,728	-
Total current liabilities	20,906	14,262
Accrued long-term liabilities	309	289
Notes payable	70	159
Convertible debentures	-	5,537
Accrued site closure costs	11,589	9,442
Deferred gain (Note 5)	1,027	2,511
TOTAL LIABILITIES	33,901	32,200
Continuing operations (Note 1)		
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	190,192	166,424
Equity component of convertible debentures	1,987	2,238
Note warrants	2,234	2,292
Contributed surplus	18,523	14,591
Deficit	(139,799)	(142,672)
TOTAL SHAREHOLDERS' EQUITY	73,137	42,873
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 107,038	\$ 75,073

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

APOLLO GOLD CORPORATION**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

(U.S. dollars and shares in thousands, except per share amounts)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenue from sale of minerals	\$ 12,764	\$ 11,863	\$ 38,685	\$ 27,594
Operating expenses				
Direct operating costs	9,978	7,285	28,508	18,280
Depreciation and amortization	406	377	1,165	1,007
General and administrative expenses	826	902	2,914	2,901
Accretion expense - accrued site closure costs	177	126	532	380
Amortization of deferred gain	(560)	(345)	(1,484)	(774)
Exploration and business development	754	291	2,511	2,028
	11,581	8,636	34,146	23,822
Operating income	1,183	3,227	4,539	3,772
Other income (expenses)				
Interest income	100	146	309	485
Interest expense (Note 10)	(1,143)	(1,584)	(3,312)	(4,197)
Financing costs	(70)	-	(70)	(480)
Realized gains on derivative contracts	1,556	-	3,506	-
Unrealized losses on derivative contracts	(763)	-	(1,496)	-
Foreign exchange (loss) gain and other	(283)	33	(508)	31
	(603)	(1,405)	(1,571)	(4,161)
Income (loss) before income taxes	580	1,822	2,968	(389)
Income taxes (Note 11)	(32)	295	(95)	295
Net income (loss) and comprehensive income (loss) for the period	\$ 548	\$ 2,117	\$ 2,873	\$ (94)
Basic and diluted earnings (loss) per share (Note 12)	\$ 0.00	\$ 0.01	\$ 0.02	\$ (0.00)
Basic weighted-average number of shares outstanding	199,748	143,922	173,374	143,359
Diluted weighted-average number of shares	199,914	145,202	175,052	143,359

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

APOLLO GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(U.S. dollars and shares in thousands)

(Unaudited)

	Share Capital		Equity Component of			Total	
	Number of Shares	Amount	Convertible Debentures	Note Warrants	Contributed Surplus		
					Deficit		
Balance January 1, 2007, as adjusted	142,282	\$ 159,029	\$ 1,809	\$ 1,062	\$ 11,166	\$ (145,088)	\$ 27,978
Shares issued for services	120	52	-	-	-	-	52
Shares issued for Huizopa settlement	1,000	540	-	-	-	-	540
Shares issued for Black Fox mineral rights	1,058	527	-	-	-	-	527
Flow-through shares issued for cash and related compensation warrants	7,455	3,857	-	-	58	-	3,915
Income tax benefits renounced to shareholders of flow-through units issued in 2006	-	(234)	-	-	-	-	(234)