

APOLLO GOLD CORP
Form 10-Q
May 10, 2010

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

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

Commission File Number: 001-31593

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

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

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

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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.:

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Large Accelerated Filer Accelerated Filer R
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 R

At May 10, 2010, there were 337,973,660 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. These statements include comments regarding:

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- the timing, benefits and effects of the proposed business combination with Linear Gold Corp.;
- plans for the development of and production at the Black Fox mine including, without limitation, the timing of the development of the underground mine at Black Fox;
 - estimates of future production at Black Fox;
- repayments of indebtedness and our ability to meet our repayment obligations under the Black Fox project finance facility;

- our exploration and development plans, including such plans for our Grey Fox, Pike River and Huizopa projects;
- our ability to repay the convertible debentures issued to RAB Special Situations (Master) Fund Limited (“RAB”) due August 23, 2010;
- the future effect of issuances and registration for immediate resale of a significant number of common share purchase warrants on our share price;
 - liquidity to support operations and debt repayment;
 - future financing of projects, including our Grey Fox, Pike River and Huizopa projects;
 - completion of a Canadian National Instrument 43-101 for our exploration properties;
 - the establishment and estimates of mineral reserves and resources;
 - daily production, mineral recovery rates and mill throughput rates;
 - total production costs;
 - cash operating costs;
 - total cash costs;
 - grade of ore mined and milled from Black Fox and cash flows derived therefrom;
 - anticipated expenditures for development, exploration, and corporate overhead;
 - timing and issue of permits, including permits necessary to conduct phase II of open pit mining at Black Fox;
 - expansion plans for existing properties;
 - estimates of closure costs and reclamation 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: completion of the proposed business combination with Linear Gold Corp.; unexpected changes in business and economic conditions, including the recent significant deterioration in global financial and capital markets; significant increases or decreases in gold prices; changes in interest and currency exchange rates including the LIBOR rate; timing and amount of production; unanticipated changes in grade of ore; unanticipated recovery or production problems; changes in operating costs; operational problems at our mining properties; metallurgy, processing, access, availability of materials, equipment, supplies and water; determination of reserves; costs and timing of development of new reserves; results of current and future exploration and development activities; results of current and future exploration 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 at reasonable rates or at all; and the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 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. Except as required by securities law, 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 the United States of America (“U.S. GAAP”) 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, 2009 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.

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 and accretion on accrued site closure costs.

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, 2009 filed with the Securities and Exchange Commission on March 17, 2010.

APOLLO GOLD CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands of U.S. dollars)
 (Unaudited)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT		
Cash	\$ 1,931	\$ –
Restricted cash (Note 5)	17,695	6,731
Accounts receivable and other	1,107	1,690
Prepays	1,578	394
Derivative instruments (Note 6 and Note 20)	8,167	1,961
Inventories (Note 7)	8,718	8,189
Total current assets	39,196	18,965
Derivative instruments (Note 6)	–	4,844
Long-term investments (Note 8)	4,476	1,036
Property, plant and equipment	113,561	116,171
Investment in Montana Tunnels joint venture (Note 14)	–	3,440
Restricted certificates of deposit	15,318	14,805
TOTAL ASSETS	\$ 172,551	\$ 159,261
LIABILITIES		
CURRENT		
Bank indebtedness	\$ –	\$ 328
Accounts payable	5,395	6,789
Accrued liabilities	2,245	2,129
Derivative instruments (Note 6)	12,757	12,571
Current portion of long-term debt (Note 9)	41,305	34,860
Total current liabilities	61,702	56,677
Accrued long-term liabilities	353	483
Derivative instruments (Note 6)	30,849	31,654
Long-term debt (Note 9)	34,094	48,909
Equity-linked financial instruments (Note 10)	17,305	27,318
Accrued site closure costs	5,710	5,345
Future income tax liability	450	1,304
TOTAL LIABILITIES	150,463	171,690
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Common stock – Nil par value, unlimited shares authorized, 337,973,660 and 264,200,927 shares issued and outstanding, respectively	230,450	202,769
Additional paid-in capital	45,942	45,555
Accumulated deficit	(254,304)	(260,753)
TOTAL SHAREHOLDERS' EQUITY (DEFICIENCY)	22,088	(12,429)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	\$ 172,551	\$ 159,261

Subsequent Event (Notes 6 and 20)

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

	Three months ended	
	March 31,	
	2010	2009
Revenue from the sale of gold	\$ 17,626	\$ —
Operating expenses		
Direct operating costs	9,984	—
Depreciation and amortization	3,461	10
Accretion expense – accrued site closure costs	175	—
General and administrative expenses	1,949	932
Exploration and business development	271	227
	15,840	1,169
Operating income (loss)	1,786	(1,169)
Other income (expenses)		
Interest income	54	40
Interest expense (Note 12)	(3,342)	(830)
Debt transaction costs	—	(1,239)
Loss on modification of convertible debentures (Note 9(b))	(513)	(1,969)
Linear acquisition costs	(577)	—
Fair value change on equity-linked financial instruments (Note 10)	10,013	(4,753)
Realized (losses) gains on derivative instruments	(3,343)	368
Unrealized gains (losses) on derivative instruments	1,981	(18,418)
Foreign exchange gain and other	222	97
	4,495	(26,704)
Income (loss) before income taxes and equity loss in Montana Tunnels joint venture	6,281	(27,873)
Income taxes (Note 13)	869	73
Equity loss in Montana Tunnels joint venture (Note 14)	(701)	(624)
Net income (loss) and comprehensive income (loss) for the period	\$ 6,449	\$ (28,424)
Basic and diluted net income (loss) per share (Note 15)	\$ 0.02	\$ (0.13)
Basic weighted-average number of shares outstanding	276,461	226,459
Diluted weighted-average number of shares outstanding (Note 15)	312,656	226,459

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

APOLLO GOLD CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
 (U.S. dollars and shares in thousands)
 (Unaudited)

	Number of Shares	Share Capital	Debenture Note Warrants	Additional Paid-In Capital	Deficit	Total
Balance, December 31, 2008	222,860	\$ 189,451	\$ 2,234	\$ 48,241	\$ (197,572)	\$ 42,354
Cumulative effect of change in accounting principle	–	–	–	(6,939)	(1,531)	(8,470)
Shares issued for services	5,173	1,553	–	–	–	1,553
Shares issued in settlement of interest	2,445	772	–	–	–	772
Warrants issued for services	–	–	–	961	–	961
Warrants exercised	7,612	1,416	–	–	–	1,416
Shares issued for cash and related compensation warrants	26,111	9,577	–	294	–	9,871
Expiration of note warrants	–	–	(2,234)	2,234	–	–
Stock-based compensation	–	–	–	764	–	764
Net loss and comprehensive loss	–	–	–	–	(61,650)	(61,650)
Balance, December 31, 2009	264,201	202,769	–	45,555	(260,753)	(12,429)