APOLLO GOLD CORP
Form 10-Q
August 14, 2007

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 June 30, 2007

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	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(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, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer £ Accelerated Filer £ Non-Accelerated Filer R

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 August 6, 2007, there were 143,467,186 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 expenditure, 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:

- future cash flow from the Montana Tunnels mine;
- the establishment and estimates of mineral reserves and resources;
- the timing of completion of feasibility studies at Black Fox;
- the availability of stockpiled lower grade material and ore for processing and production if mining activity were temporarily interrupted;
- production and production costs;
- daily production rates;
- throughput rates;
- cash operating costs;
- total cash costs;
- grades of ore mined and milled;
- expenditures;
- exploration;
- permits;
- expansion plans;
- plans for Black Fox and Huizopa;
- closure costs;
- cash flows;
- future financing;
- liquidity;
- estimates of environmental liabilities;

- our ability to obtain future financing to fund our estimated operating and capital requirements;
- anticipated exploration, development and corporate overhead expenditures;
- factors impacting our results of operations;
- application of Sarbanes-Oxley 404 reporting requirements and our ability to meet those reporting requirements; 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; significant increases or decreases in gold and zinc prices; changes in interest and currency exchange rates; timing and amount of production; unanticipated grade changes; unanticipated metal recovery or production problems; changes in mining and milling costs; operational problems at our mining property; 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 activities; results of pending and 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 and 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, 2006 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, 2006 included in our Annual Report on Form 10-K. Certain reclassifications have been made to the prior period financial statements to conform with the current period presentation.

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

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

NON-GAAP FINANCIAL INFORMATION

Cash operating, total cash and total production costs are non-GAAP financial measures and are used by management to assess performance of individual operations as well as a comparison to other gold producers. We have included cash operating costs information to provide investors with information about the cost structure of our mining operations.

The term “cash operating costs” is used on a per ounce of gold basis. Cash operating costs per ounce is equivalent to direct operating cost as found on the Consolidated Statements of Operations, less production royalty expenses and mining taxes but includes by-product credits for payable silver, lead and zinc.

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

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

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

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, 2006 filed with the Securities and Exchange Commission on April 2, 2007.

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

		June 30, 2007		December 31, 2006
ASSETS				
CURRENT				
Cash and cash equivalents	$	7,076	$	4,512
Accounts receivable and other		2,327		728
Note receivable (Note 4)		-		1,865
Prepaids		100		301
Inventories		1,525		660
Total current assets		11,028		8,066
Property, plant and equipment		42,253		38,868
Deferred stripping costs (Note 3)		3,087		-
Restricted certificates of deposit		5,497		4,605
Deferred financing costs		-		265
TOTAL ASSETS	$	61,865	$	51,804
LIABILITIES				
CURRENT				
Accounts payable	$	2,116	$	1,710
Accrued liabilities		2,990		1,254
Notes payable		1,105		671
Property and mining taxes payable		570		442
Convertible debentures		8,271		7,660
Total current liabilities		15,052		11,737
Accrued severance		-		370
Notes payable		224		569
Convertible debentures (Note 5)		4,045		-
Accrued site closure costs		7,402		7,135
Deferred gain (Note 4)		3,321		3,750
TOTAL LIABILITIES		30,044		23,561
Continuing operations (Note 1)				
SHAREHOLDERS' EQUITY				
Share capital (Note 6)		159,788		159,029
Equity component of convertible debentures (Note 5)		4,101		1,809
Note warrants (Note 5)		3,211		1,062
Contributed surplus		12,020		11,166
Deficit		(147,299)		(144,823)
TOTAL SHAREHOLDERS' EQUITY		31,821		28,243
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	61,865	$	51,804

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)
(In thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Revenue from sale of minerals	$ 12,841	$ 3,667	$ 15,731	$ 9,805
Operating expenses				
Direct operating costs	7,932	3,587	10,995	10,745
Depreciation and amortization	380	377	630	958
General and administrative expenses	859	1,248	1,999	2,472
Accretion expense - accrued site closure costs	127	237	254	474
Amortization of deferred gain	(358)	-	(429)	-
Exploration and business development	185	249	1,737	600
(Gain) loss on sale of property, plant and equipment	-	(2)	-	5
	9,125	5,696	15,186	15,254
Operating income (loss)	3,716	(2,029)	545	(5,449)
Other income (expenses)				
Interest income	151	88	339	154
Interest expense (Note 7)	(1,468)	(613)	(2,613)	(1,213)
Financing costs	-	-	(480)	-
Foreign exchange loss and other	37	(14)	(2)	(13)
Income (loss) from continuing operations for the period	2,436	(2,568)	(2,211)	(6,521)
Loss from discontinued operations for the period	-	-	-	(250)
Net income (loss) and comprehensive income (loss) for the period	$ 2,436	$ (2,568)	$ (2,211)	$ (6,771)
Basic and diluted net income (loss) per share from:				
Continuing operations	$ 0.02	$ (0.02)	$ (0.02)	$ (0.06)
Discontinued operations	-	-	-	-
	$ 0.02	$ (0.02)	$ (0.02)	$ (0.06)
Basic weighted-average number of shares outstanding	143,467,186	121,396,859	143,072,061	119,182,529
Diluted weighted-average number of shares outstanding	144,745,876	121,396,859	143,072,061	119,182,529

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

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APOLLO GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)
(Unaudited)

	Share Capital		Equity Component of				
	Number of Shares	Amount	Convertible Debentures	Note Warrants	Contributed Surplus	Deficit	Total
Balance, December 31, 2005	107,456,451	$ 148,526	$ 1,809	$ 781	$ 10,561	$ (129,236)	$ 32,441
Units issued for cash	11,650,000	3,488	-	-	-	-	3,488
Shares issued for 2005 stock-based compensation	2,290,408	955	-	-	-	-	955
Reduction of exercise price of Note Warrants	-	-	-	305	-	-	305
Note warrants exercised	600,000	264	-	(24)	-	-	240
Shares issued for services	1,325,000	668	-	-	-	-	668
Flow-through units issued for cash	2,222,221	746	-	-	27	-	773
Units issued for cash	16,688,206	4,357	-	-	156	-	4,513
Options exercised	50,000	25	-	-	(5)	-	20
Stock-based compensation	-	-	-	-	427	-	427
Net loss	-	-	-	-	-	(15,587)	(15,587)
Balance, December 31, 2006	142,282,286	159,029	1,809	1,062	11,166	(144,823)	28,243
Change in accounting policy (Note 3)	-	-	-	-	-	(265)	(265)
Balance (as adjusted), January 1, 2007	142,282,286	159,029	1,809	1,062	11,166	(145,088)	27,978
Shares issued for services	20,000	10	-	-	-	-	10
Shares issued for Huizopa settlement (Note 6(a))	1,000,000	540	-	-	-	-	540
Note warrants exercised	164,900	209	-	(143)	-	-	66
Equity component of convertible debentures (Note 5)	-	-	2,292	-	-	-	2,292
Note warrants (Note 5)	-	-	-	2,292	-	-	2,292
Debenture compensation warrants (Note 5)	-	-	-	-	467	-	467
Stock-based compensation	-	-	-	-	387	-	387
Net loss and comprehensive loss	-	-	-	-	-	(2,211)	(2,211)
Balance, June 30, 2007	143,467,186	$ 159,788	$ 4,101	$ 3,211	$ 12,020	$ (147,299)	$ 31,821

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

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APOLLO GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(Unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Operating activities				
Net income (loss) for the period	$ 2,436	$ (2,568)	$ (2,211)	$ (6,771)
Items not affecting cash:				
Depreciation and amortization	380	377	630	958
Amortization of deferred stripping costs	558	-	661	-
Amortization of deferred financing costs	-	79	-	159
Financing costs	-	-	174	-
Loss from discontinued operations	-	-	-	250
Reduction in exercise price of Note Warrants	-	-	-	305
Stock-based compensation	189	81	387	189
Shares issued for services and settlement of claims	-	-	550	-
Accretion expense - accrued site closure costs	127	237	254	474
Accretion expense - convertible debenture	939	258	1,471	504
Loss on sale of property, plant and equipment and other	-	16	-	36
Amortization of deferred gain (Note 4)	(358)	-	(429)	-
Net change in non-cash operating working capital items (Note 10)	(762)	162	(364)	(1,713)
Discontinued operations	-	-	-	(250)
Net cash provided by (used in) operating activities	3,509	(1,358)	1,123	(5,859)
Investing activities				
Property, plant and equipment expenditures	(802)	(987)	(3,677)	(4,432)
Deferred stripping costs	(1,496)	-	(3,748)	-
Proceeds from disposal of property, plant and equipment	-	2	-	92
Restricted certificate of deposit and other assets	(499)	(540)	(892)	10,013
Net cash (used in) provided by investing activities	(2,797)	(1,525)	(8,317)	5,673
Financing activities				
Proceeds on issuance of shares	-	-	-	3,488
Proceeds on issuance of convertible debentures and note warrants, net	-	-	8,062	-

Proceeds from exercise of warrants		-		-		66		-
Proceeds from notes payable		-		-		1,250		-
Payments of notes payable		(1,125)		(92)		(1,485)		(449)
Notes receivable from Elkhorn Tunnels, LLC		-		-		1,865		-
Net cash (used in) provided by financing activities		(1,125)		(92)		9,758		3,039
Net (decrease) increase in cash and cash equivalents		(413)		(2,975)		2,564		2,853
Cash and cash equivalents, beginning of period		7,489		5,955		4,512		127
Cash and cash equivalents, end of period (Note 10)	$	7,076	$	2,980	$	7,076	$	2,980
SUPPLEMENTAL CASH FLOW INFORMATION								
Interest paid	$	334	$	275	$	604	$	550
Income taxes paid	$	-	$	-	$	-	$	-

Non-cash investing and financing activities

During the three and six months ended June 30, 2007, property, plant and equipment totaling $286 and $325, respectively, was acquired via issuance of notes payable. Also, during the six months ended June 30, 2007, the Company issued agent’s compensation warrants with a value of $294 for services rendered in connection with the issuance of the Series 2007-A convertible debentures (Note 5).

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

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Six month period ended June 30, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

1. CONTINUING OPERATIONS

These condensed consolidated financial statements are prepared on the basis of a going concern which assumes that Apollo Gold Corporation ("Apollo" or the "Company") will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. To date the Company has funded its operations through issuance of debt and equity securities, joint venture contributions from Elkhorn Tunnels, LLC ("Elkhorn") and cash generated by the Montana Tunnels joint venture (Note 4). The Company's ability to continue as a going concern is dependent on its ability to generate cash flow from the Montana Tunnels joint venture and/or continue to issue debt and equity securities.

If the Company is unable to generate sufficient cash flow from the Montana Tunnels joint venture and/or secure additional financing, it may be unable to continue as a going concern and material adjustments would be required to the carrying value of assets and liabilities and balance sheet classifications used.

2. NATURE OF OPERATIONS

Apollo is engaged in gold mining including extraction, processing, refining and the production of other co-product metals, as well as related activities including exploration and development. The Company is the operator of the Montana Tunnels mine (the "Mine"), which is a 50% joint venture with Elkhorn. The Mine is an open pit mine and mill located in the State of Montana that produces gold dore and lead-gold and zinc-gold concentrates. The Company owns the Diamond Hill mine, which is also located in Montana and is currently under care and maintenance.

Apollo has a development property, the Black Fox development project (the "Black Fox Project"), which is located near the Township of Matheson in the Province of Ontario, Canada. Apollo also owns Mexican subsidiaries that own concessions at the Huizopa exploration project (the "Huizopa Project"), which is located in the Sierra Madres in Chihuahua, Mexico.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) These unaudited consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and except as described in Note 12, conform in all material respects with accounting principles generally accepted in the United States ("U.S. GAAP"). 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, 2006, except as disclosed in *(b), (c) and (d)* below. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with Canadian GAAP have been omitted. These interim financial statements should be read together with the Company's audited financial statements for the year ended December 31, 2006.

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 to the presentation as at and for the three and six months ended June 30, 2007. In particular, $0.1 million and $0.2 million of stock-based compensation, respectively, charged to operations have been reclassified to general and administrative expenses rather than disclosed separately.

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Six month period ended June 30, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) At June 30, 2007, the Company has ore stockpiles which are included in Inventories. Ore stockpiles represent ore that has been mined and is available for further processing. Work-in-process inventories, including ore stockpiles, are valued at the lower of average production cost and net realizable value, after a reasonable allowance for further processing and sales costs.

(c) On March 2, 2006, the Emerging Issues Committee issued EIC-160, *Stripping Costs Incurred in the Production Phase of a Mining Operation,* which requires stripping costs that represent a betterment to the mineral property to be capitalized and amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity. The Company adopted EIC-160 as of January 1, 2007 on a prospective basis. During the three and six months ended June 30, 2007, the Company capitalized $1.5 million and $3.7 million, respectively, in deferred stripping costs and recorded amortization thereon in the amount of $0.6 million and $0.7 million, respectively. Deferred stripping costs are amortized using the units-of-production method over the expected life of the operation based on the estimated recoverable gold equivalent ounces.

(d) Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*, CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, CICA Handbook Section 3865, *Hedges*, and CICA Handbook Section 3251, *Equity*. These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments, transaction costs incurred on financial instruments, as well as standards on when and how hedge accounting may be applied. CICA Handbook Section 1530 also introduces a new component of equity referred to as comprehensive income. The Company has adopted these standards prospectively.

In accordance with this new standard, the Company now classifies all financial instruments as either held-to-maturity, available-for-sale, held-for-trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in the statement of operations. Transaction costs are expensed as incurred.

Upon adoption of this new standard, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and other are classified as loans and receivables, which are measured at amortized cost. Restricted certificates of deposit are classified as held-to-maturity, and are measured at amortized cost. Accounts payable and accrued liabilities, property and mining taxes payable, convertible debentures, notes payable, and accrued site closure costs are classified as other liabilities, which are measured at amortized cost.

Under CICA Handbook Section 3855, the Company adopted a policy to expense debt financing costs when they are incurred and as a result the Company recorded a non-cash adjustment to increase opening deficit by $0.3 million to eliminate the opening balance of deferred financing costs that were capitalized and amortized under the Company’s previous accounting policy.

Comprehensive income is the change in shareholders’ equity during a period from transactions and other events and circumstances from non-owner sources. The adoption of CICA Handbook Section 1530 had no impact on the

Company.

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Six month period ended June 30, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

4. MONTANA TUNNELS JOINT VENTURE

On July 28, 2006, Apollo entered into a joint venture ("JV Agreement") with Elkhorn in respect of the Mine. Elkhorn contributed $13 million in return for a 50% interest in the Mine.

Elkhorn will receive 55% and Apollo will receive 45% of the positive free cash flow, as defined in the JV agreement, from the Mine until such time as Elkhorn has received cash flow of $13 million (at which time Apollo will have received $10.6 million). At that time, Apollo would become entitled to 60% and Elkhorn 40% of the positive free cash flow from the Mine, until both parties have received an equal amount (at which time Apollo will have received $17.7 million). Thereafter, the sharing would be 50/50. Additionally, Elkhorn is entitled to a 10% interest distribution (reduced from 12% effective April 1, 2007) charged to the joint venture as interest expense (Note 7) on its initial contribution of $13 million until it has received cash flow of $13 million.

Apollo accounts for its 50% interest in the assets and liabilities of the Montana Tunnels joint venture using the proportionate consolidation method. As of December 31, 2006, the Company recorded a deferred gain on the transfer of assets and liabilities to the joint venture of $3.8 million. The deferred gain is amortized using the units-of-production method over the expected life of the operation based on the estimated recoverable gold equivalent ounces. Amortization of the deferred gain was $0.36 million and $0.43 million for the three and six months ended June 30, 2007, respectively.

Apollo's 50% share of the assets and liabilities of the Montana Tunnels joint venture is as follows:

		June 30, 2007		**December 31, 2006**
Current				
Cash and cash equivalents	$	1,381	$	(64)
Accounts receivable and other		1,969		21
Note receivable		-		1,865
Inventories (Note 3)		1,525		660
Prepaids		19		24
		4,894		2,506
Property, plant and equipment		7,165		7,151
Deferred stripping costs		3,087		-
Restricted certificates of deposit		4,269		3,430
Total assets	$	19,415	$	13,087
Current				
Accounts payable	$	891	$	216
Accrued liabilities		1,430		669
Notes payable		1,075		496
Property and mining taxes payable		567		438
		3,963		1,819
Notes payable		192		527
Accrued site closure costs		6,357		6,127

Total liabilities	$	10,512	$	8,473

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APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Six month period ended June 30, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

5. CONVERTIBLE DEBENTURES

On February 23, 2007, the Company completed a private placement of $8.6 million aggregate principal amount of Series 2007-A convertible debentures (“2007 Debentures”). Each $1,000 of principal amount of 2007 Debentures included 2,000 common share purchase warrants (“2007 Debenture Warrants”) (Note 6(b)(i)). The 2007 Debentures mature on February 23, 2009 and bear interest at a rate of 12% per annum during the first year and 18% per annum during the second year, payable annually beginning on February 23, 2008.

The 2007 Debentures are convertible, at the option of the holder, at any time prior to maturity into common shares of the Company at a price of $0.50 per common share. The Company has the option to force conversion of the Debentures under certain circumstances. The Debentures are classified as a compound financial instrument for accounting purposes. The 2007 Debenture Warrants have an exercise price of $0.50 per common share and have a term of two years from the date of grant.

On the date of issuance of the 2007 Debentures, the gross proceeds of $8.6 million was allocated to the relative fair values of the Debentures ($3.2 million), the holder’s option to convert the principal balance into common shares ($2.7 million) (the “Conversion Option”), and the 2007 Debenture Warrants ($2.7 million). The $3.2 million fair value of the 2007 Debentures is classified as a liability, while the $5.4 million allocated to the Conversion Option and the 2007 Debenture Warrants is classified as separate components within shareholders’ equity.

Over the two-year term, the 2007 Debentures are accreted to their face value through a periodic charge to accretion expense with a corresponding credit to the liability component. The accretion expense is based on the effective interest method. For the three and six months ended June 30, 2007, the Company recorded accretion expense of $0.6 and $0.9 million, respectively, related to the 2007 Debentures, which is included in interest expense.

In addition to the 2007 Debenture Warrants, the agents were granted 1,201,200 compensation warrants with the substantially the same terms and conditions as the 2007 Debenture Warrants above.

The Company incurred transaction costs of $1.3 million (including the fair value of the agents’ compensation warrants of $0.5 million). These costs were allocated to 2007 Debenture issuance costs of $0.5 million and to equity issuance costs of $0.8 million, based on their relative fair values of the debt and equity components. Financing costs associated with the issuance of the 2007 Debentures are expensed as incurred.

The fair values of the Conversion Option, the 2007 Debenture Warrants, and the compensation warrants were determined using the Black-Scholes option pricing model assuming no expected dividends, a volatility of the Company’s share price of 70%, an interest rate of 4.1%, and an expected life of two years.

Under the terms of the Registration Rights Agreements entered into by the Company in connection with the 2007 Debentures, the common shares underlying the 2007 Debentures and the 2007 Debenture Warrants are required to be registered for resale with the U.S. Securities and Exchange Commission (“SEC”). If the registration statement with respect to 50% of such shares was not declared effective by the SEC by May 25, 2007, the Company would be required to pay additional interest to the holders of the 2007 Debentures equal to 6% per annum. The Company did not meet the May 25, 2007 effectiveness deadline and as a result accrued additional interest of $26,000 for the period commencing May 25, 2007 through June 30, 2007.

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APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Six month period ended June 30, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

6. SHARE CAPITAL

(a) Shares issued in 2007

On February 28, 2007, the Company issued 1,000,000 common shares of the Company at $0.54 per share in connection with the settlement of certain claims in relation to the Huizopa property.

(b) Warrants

The following summarizes outstanding warrants as at June 30, 2007:

Date Issued	Number of Warrants	Number of Shares	Exercise Price	Expiry Date
			Exercisable in US$	
November 4, 2004	4,248,700	4,248,700	0.40	November 4, 2007
November 4, 2004	240,000	240,000	0.80	November 4, 2007
November 4, 2004	1,396,000	1,396,000	0.80	November 4, 2007
November 8, 2006	8,344,103	8,344,103	0.50	November 8, 2009
November 8, 2006	1,168,174	1,168,174	0.50	November 8, 2009
February 23, 2007	17,160,000	17,160,000	0.50	February 23, 2009
February 23, 2007	1,201,200	1,201,200	0.50	February 23, 2009
	33,758,177	33,758,177		
			Exercisable in Cdn$	
January 26, 2006	2,000,000	2,000,000	0.39	January 26, 2008
October 30, 2006	1,111,111	1,111,111	1.00 (1)	October 30, 2008
	3,111,111	3,111,111		
	36,869,288	36,869,288		

(1) The exercise price of these warrants increase to Cdn$1.15 on October 31, 2007 if unexercised as of that date.

In addition, in connection with the Company's private placement to Canadian purchasers of 2,222,221 flow-through units on October 30, 2006, the Company issued 166,666 broker compensation warrants. Each broker compensation warrant is immediately exercisable at Cdn$0.45 for two years into one common share of the Company and one-half of one share purchase warrant, with each whole share purchase warrant exercisable into one common share of the Company at Cdn$1.00 per common share through October 30, 2007 and at Cdn$1.15 through October 30, 2008. The broker compensation warrants expire on October 30, 2008.

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6. SHARE CAPITAL (continued)

(c) Options

A summary of information concerning outstanding stock options at June 30, 2007 is as follows:

	Fixed Stock Options			Performance-based Stock Options		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Balances, December 31, 2006	3,052,900	$	1.06	1,230,852	$	0.80
Options granted	3,142,114		0.57	-		-
Options forfeited	(31,750)		1.07	-		-
Options expired	-		-	(1,230,852)		0.80
Balances, June 30, 2007	6,163,264	$	0.81	-	$	-

(i) Fixed stock option plan

The Company has a stock option plan that provides for the granting of options to directors, officers, employees and service providers of the Company. Options vest over two years and have a 10-year contractual term, unless otherwise determined by the Company's Board of Directors. The Company is authorized to issue a maximum of 12,139,686 fixed stock options. As at June 30, 2007, an aggregate of 5,976,422 fixed stock options were available for future grants of awards under the plan.

The following table summarizes information concerning outstanding and exercisable fixed stock options at June 30, 2007:

Options Outstanding					Options Exercisable		
Number Outstanding	Expiry Date		Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (in years)	Number Exercisable		Weighted Average Exercise Price per Share
678,200	February 18, 2013	$	2.24	5.6	678,200	$	2.24
261,000	March 10, 2014		2.05	6.7	261,000		2.05
25,000	May 19, 2014		1.44	6.9	25,000		1.44
21,200	August 10, 2014		0.95	7.1	21,200		0.95
1,162,750	March 10, 2015		0.65	7.7	1,162,750		0.65
100,000	August 4, 2015		0.27	8.1	50,000		0.27
300,000	December 12, 2015		0.20	8.5	150,000		0.20