APOLLO GOLD CORP
Form 10-Q
May 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 March 31, 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 May 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 underground reserve and 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 expenditure 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 recovery or production problems; changes in mining and milling costs; operational problems at our mining property; 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 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 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, 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 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, 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)

		March 31, 2007		December 31, 2006
ASSETS				
CURRENT				
Cash and cash equivalents	$	7,489	$	4,512
Accounts receivable and other		1,389		728
Note receivable (Note 4)		-		1,865
Prepaids		272		301
Inventories		1,241		660
Total current assets		10,391		8,066
Property, plant and equipment		41,538		38,868
Deferred stripping costs (Note 3)		2,149		-
Restricted certificates of deposit		4,998		4,605
Deferred financing costs		-		265
TOTAL ASSETS	$	59,076	$	51,804
LIABILITIES				
CURRENT				
Accounts payable	$	2,489	$	1,710
Accrued liabilities		2,519		1,254
Notes payable		1,756		671
Property and mining taxes payable		379		442
Convertible debentures		7,959		7,660
Total current liabilities		15,102		11,737
Accrued severance		-		370
Notes payable		413		569
Convertible debentures (Note 5)		3,418		-
Accrued site closure costs		7,268		7,135
Deferred gain (Note 4)		3,679		3,750
TOTAL LIABILITIES		29,880		23,561
Continuing operations (Note 1)				
SHAREHOLDERS’ EQUITY				
Share capital (Note 6)		159,665		159,029
Equity component of convertible debentures		4,101		1,809
Note warrants		3,334		1,062
Contributed surplus		11,831		11,166
Deficit		(149,735)		(144,823)
TOTAL SHAREHOLDERS’ EQUITY		29,196		28,243
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	59,076	$	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 LOSS
(In thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Revenue from sale of minerals	$ 2,890	$ 6,138
Operating expenses		
Direct operating costs	3,063	7,158
Depreciation and amortization	250	581
General and administrative expenses	1,140	1,224
Accretion expense - accrued site closure costs	127	237
Amortization of deferred gain	(71)	-
Exploration and business development	1,552	351
Loss on sale of property, plant and equipment	-	7
	6,061	9,558
Operating loss	(3,171)	(3,420)
Other income (expenses)		
Interest income	188	66
Interest expense (Note 7)	(1,145)	(600)
Financing costs	(480)	-
Foreign exchange loss and other	(39)	1
Loss from continuing operations for the period	(4,647)	(3,953)
Loss from discontinued operations for the period	-	(250)
Net loss and comprehensive loss for the period	$ (4,647)	$ (4,203)
Basic and diluted net loss per share from:		
Continuing operations	$ (0.03)	$ (0.04)
Discontinued operations	-	-
	$ (0.03)	$ (0.04)
Basic and diluted weighted-average number of shares outstanding	142,672,545	116,555,263

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

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

	Share Capital						
	Number of Shares	**Amount**	**Equity Component of 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	86	-	(20)	-	-	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	-	-	-	-	198	-	198
Net loss and comprehensive loss	-	-	-	-	-	(4,647)	(4,647)
Balance, March 31, 2007	143,467,186	$ 159,665	$ 4,101	$ 3,334	$ 11,831	$ (149,735)	$ 29,196

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

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

	Three months ended March 31, 2007		Three months ended March 31, 2006	
Operating activities				
Net loss for the period	$	(4,647)	$	(4,203)
Items not affecting cash:				
Depreciation and amortization		250		581
Amortization of deferred stripping costs		103		-
Amortization of deferred financing costs		-		80
Financing costs		174		-
Loss from discontinued operations		-		250
Reduction in exercise price of Note Warrants		-		305
Stock-based compensation		198		108
Shares issued for services and settlement of claims		550		-
Accretion expense - accrued site closure costs		127		237
Accretion expense - convertible debenture		532		246
Loss on sale of property, plant and equipment and other		-		20
Amortization of deferred gain		(71)		-
Net change in non-cash operating working capital items (Note 10)		398		(1,875)
Discontinued operations		-		(250)
Net cash used in operating activities		(2,386)		(4,501)
Investing activities				
Property, plant and equipment expenditures		(2,875)		(3,445)
Deferred stripping costs		(2,252)		-
Proceeds from disposal of property, plant and equipment		-		90
Restricted certificate of deposit and other assets		(393)		10,553
Net cash (used in) provided by investing activities		(5,520)		7,198
Financing activities				
Proceeds on issuance of convertible debentures and note warrants, net		8,062		3,488
Proceeds from exercise of warrants		66		-
Proceeds from notes payable		1,250		-
Payments of notes payable		(360)		(357)
Notes receivable from Elkhorn Tunnels, LLC		1,865		-
Net cash provided by financing activities		10,883		3,131
Net increase in cash and cash equivalents		2,977		5,828
Cash and cash equivalents, beginning of period		4,512		127
Cash and cash equivalents, end of period	$	7,489	$	5,955
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$	335	$	275
Income taxes paid	$	-	$	-

Non-cash investing and financing activities

During the three months ended March 31, 2007, property, plant and equipment totaling $39 was acquired via issuance of a promissory note.

The Company issued agent's compensation warrants with a value of $294 for services rendered in connection with the issuance of the 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
Three month period ended March 31, 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 and funding from joint venture partners (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 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 Tunnels, LLC ("Elkhorn"). The Mine is an open pit mine and mill, producing gold doré and lead-gold and zinc-gold concentrates, located in the State of Montana. The Company also owns the Diamond Hill Mine, currently under care and maintenance, also located in the State of Montana.

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 which own concessions at the Huizopa exploration project (the "Huizopa Project"), 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 current period presentation.

(b) At March 31, 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.

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Three month period ended March 31, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

3. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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 months ended March 31, 2007, the Company capitalized $2.3 million in deferred stripping costs and recorded amortization thereon in the amount of $0.1 million. 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. 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 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 Section 1530 had no impact on the Company.

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Three month period ended March 31, 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 12% interest distribution (reduced to 10% 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 $0.1 million for the three months ended March 31, 2007.

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

		March 31, 2007		**December 31, 2006**
Current				
Cash and cash equivalents	$	60	$	(64)
Accounts receivable and other		1,005		21
Note receivable		-		1,865
Inventories		1,241		660
Prepaids		92		24
		2,398		2,506
Property, plant and equipment		7,054		7,151
Deferred stripping costs		2,149		-
Restricted certificates of deposit		3,817		3,430
Total assets	$	15,418	$	13,087
Current				
Accounts payable	$	824	$	216
Accrued liabilities		1,234		669
Notes payable		1,693		496
Property and mining taxes payable		374		438
		4,125		1,819
Notes payable		376		527
Accrued site closure costs		6,242		6,127
Total liabilities	$	10,743	$	8,473

APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Three month period ended March 31, 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 ("Debentures") with each $1,000 of principal amount of Debentures including 2,000 common share purchase warrants ("Note Warrants") (Note 6(b)(i)). The 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 Note Warrants have an exercise price of $0.50 per common share and have a term of two years from the date of grant.

The 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.

On the date of issuance, the gross proceeds in the amount of $8.6 million has been 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 Note Warrants ($2.7 million). The $3.2 million fair value of the Debentures is classified as a liability, while the $5.4 million allocated to the Conversion Option and the Note Warrants has been classified as separate components within shareholders' equity.

Over the two-year term, the 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 months ended March 31, 2007, the Company recorded accretion expense of $0.2 million related to the Debentures.

In addition to the Note Warrants, the agents were granted 1,201,200 compensation warrants with the same terms and conditions as the Note 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 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. Debenture financing costs are expensed as incurred.

The fair values of the Conversion Option, the Note 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.

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.

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APOLLO GOLD CORPORATION
Notes to the Condensed Consolidated Financial Statements
Three month period ended March 31, 2007
(Stated in U.S. dollars; tabular amounts in thousands)
(Unaudited)

6. **SHARE CAPITAL (continued)**

(b) Warrants

The following summarizes outstanding warrants as at March 31, 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$	
June 30, 2005	1,250,000	1,250,000	0.40	June 30, 2007
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
	4,361,111	4,361,111		
	38,119,288	38,119,288		

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

In addition, 166,666 broker compensation warrants were issued and were immediately exercisable on October 30, 2006. Each broker compensation warrant is 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.

(c) Options

A summary of information concerning outstanding stock options at March 31, 2007 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, 2006	3,052,900	$ 1.06	1,230,852	$ 0.80
Options granted	3,142,114	0.57	-	-
Options forfeited	(30,400)	1.06	-	