APOLLO GOLD CORP
Form 10-K
March 30, 2004

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

COMMISSION FILE NUMBER:
001-31593

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

YUKON TERRITORY	NOT APPLICABLE
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4601 DTC Boulevard, Suite 750
Denver, Colorado 80237-2571

(Address of Principal Executive Offices Including Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, no par value

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 [X] No [_]

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Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [_] No [X]

As of March 15, 2004, the approximate aggregate market value of voting stock

held by non-affiliates of the registrant was $147,811,000 (based upon the closing price for shares of the registrant's common stock as reported by the American Stock Exchange on that date). Shares of common stock held by each officer, director, and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 15, 2004, the registrant had 75,031,198 shares of common stock, no par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the 2004 Annual Meeting of Stockholders are incorporated by reference in Part III.

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PART I

ITEM 1. BUSINESS

PRELIMINARY INFORMATION

The earliest predecessor to Apollo Gold Corporation was incorporated under the laws of the Province of Ontario in 1936. In May 2003, it reincorporated under the laws of the Yukon Territory. Apollo Gold Corporation maintains its registered office at Suite 300, 204 Black Street, Whitehorse, Yukon Territory, Canada Y1A 2M9, and the telephone number at that office is (416) 668-5252. Apollo Gold Corporation maintains its principal executive office at 4601 DTC Boulevard, Suite 750, Denver, Colorado 80237-2571, and the telephone number at that office is (720) 886-9656.

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. In this Annual Report on Form 10-K, unless otherwise specified or the context otherwise requires, all dollar amounts or references to dollars are expressed in United States dollars.

Unless otherwise specified or the context otherwise requires, in this Form 10-K the terms "we" and "our" in reference to the operations or business of Apollo Gold Corporation prior to June 25, 2002, shall mean the operations or business of Nevoro Gold Corporation and its wholly-owned subsidiary Apollo Gold, Inc. The terms "we" and "our" in reference to the operations or business of Apollo Gold Corporation on or after June 25, 2002, shall mean the operations or business of Apollo Gold Corporation, a corporation presently incorporated under the laws of the Yukon Territory, its wholly-owned subsidiary Apollo Gold, Inc., and Apollo Gold Inc.'s material wholly-owned subsidiaries Montana Tunnels Mining, Inc., Florida Canyon Mining, Inc., Standard Gold Mining, Inc. and Apollo Gold Exploration, Inc.

INTRODUCTION

We are principally engaged in the exploration, development and mining of gold. We have focused our mining efforts to date on two principal properties: our Montana Tunnels Mine, owned by one of our subsidiaries, Montana Tunnels Mining, Inc. ("Montana, Inc."),and our Florida Canyon Mine, owned by another one of our subsidiaries, Florida Canyon Mining, Inc. ("Florida, Inc."). Our development activities involve our Black Fox Property and Standard Mine project, and our exploration activities involve the Pirate Gold, Nugget Field and Diamond Hill properties. During 2003, Standard Gold Mining, Inc. acquired and incorporated into its Standard Mine property additional adjacent land positions in Buffalo Canyon, and Apollo Gold Exploration, Inc. acquired a new Willow Creek property.

We are the result of the Plan of Arrangement that resulted in the amalgamation of International Pursuit Corporation ("Pursuit") and Nevoro Gold Corporation ("Nevoro"). Pursuant to the terms of the Plan of Arrangement,

Pursuit acquired Nevoro and continued operations under the name of Apollo Gold Corporation. Through our wholly-owned subsidiary, Apollo Gold, Inc. ("AGI") (acquired by Nevoro in March 2002), we own the majority of our assets and operate our business. We continued trading on the Toronto Stock Exchange under our new name, Apollo Gold Corporation, and with a new ticker symbol, APG.U, on July 3, 2002. On August 2, 2002, our ticker symbol changed to APG.

In February 2003, we filed a Registration Statement on Form 10 with the Securities and Exchange Commission ("SEC"). The Registration Statement was declared effective on August 13, 2003. On August 26, 2003, the Company began trading on the American Stock Exchange under the ticker symbol AGT.

We own and operate the Florida Canyon Mine, a low grade heap leach gold mine located approximately 42 miles southwest of Winnemucca, Nevada. Heap leaching is a process of extracting gold and silver by placing crushed ore on sloping, impermeable pads and applying a dilute cyanide solution that dissolves a portion of the contained gold, which is then recovered. On average, the Florida Canyon Mine produces approximately 125,000 ounces of gold and approximately 80,000 ounces of silver annually. During 2003, it produced 101,811 ounces of gold and 60,065 ounces of silver.

We also own and operate the Montana Tunnels Mine, an open pit gold mine located near Helena, Montana. When in full production, over the past five years, the Montana Tunnels Mine has 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 produces approximately 15% of its annual gold production in the form of dore, an unrefined material consisting of approximately 90% gold, which is then further refined. The remainder of the mine's production is in the form of concentrates, one a zinc-gold concentrate and the other a lead-gold concentrate. The concentrates are shipped to a smelter, and after smelting charges, we are paid for the metal content. The Montana Tunnels Mine was idle for approximately four months in 2002 while we made preparations to begin the removal of waste rock at the mine. Limited production resumed in October 2002, and full production on the K-Pit resumed in April 2003. Since that time, the Montana Tunnels Mine has experienced pit wall problems that have resulted in significant changes to the mine plan, including an accelerated stripping schedule to remove 10 million tons of material that slid off the southwest pit wall. In October 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 of 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 have several exploration stage assets including Willow Creek ("Willow Creek"), Pirate Gold Prospect ("Pirate Gold") and the Nugget Field Prospect ("Nugget Field"), each located in Nevada and owned by our wholly-owned subsidiary, Apollo Gold Exploration, Inc. We also own Diamond Hill Mine ("Diamond Hill"), an exploration asset which is an unincorporated division of Montana Tunnels Mining, Inc. and located in Montana.

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 shallow drilling program to test the open pit potential and core drilling of 297 core

holes from 200 to 500 meters in depth. As a result of the core drilling, we have identified proven and probable reserves at the Black Fox Property.

Upon completion of the first phase, we began the second phase of our Black Fox project 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 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 tons of ore per day. The third phase would include construction of the mine and processing facilities at an aggregate estimated cost of approximately $45.0 million.

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 program 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.

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

	Years			
	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
Average metals prices:				
Gold - London Bullion Mkt. ($/ounce)	$ 364	$ 310	$ 271	$ 279
Silver - London Bullion Mkt. ($/ounce)	$ 4.88	$ 4.59	$ 4.37	$ 5.00
Lead - LME Cash ($/pound)	$ 0.23	$ 0.20	$ 0.216	$ 0.206
Zinc - LME Cash ($/pound)	$ 0.38	$ 0.35	$ 0.402	$ 0.512

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

BACKGROUND

We are the result of the Plan of Arrangement that resulted in the amalgamation of International Pursuit Corporation ("Pursuit") and Nevoro. Pursuant to the terms of the Plan of Arrangement, Pursuit acquired Nevoro and continued operations under the name of Apollo Gold Corporation. Through our wholly-owned subsidiary, AGI (acquired by Nevoro in March 2002), we own the majority of our assets and operate our business. We continued trading on the Toronto Stock Exchange under our new name, Apollo Gold Corporation, and with a

new ticker symbol, APG.U, on July 3, 2002. On August 2, 2002, our ticker symbol changed to APG. In February 2003, we filed a Registration Statement on Form 10 with the SEC. The Registration Statement was declared effective on August 13, 2003. On August 26, 2003, the Company began trading on the American Exchange under the ticker symbol AGT.

INTERNATIONAL PURSUIT CORPORATION (PRIOR TO THE PLAN OF ARRANGEMENT)

International Pursuit Corporation ("Pursuit") was incorporated under the laws of the Province of Ontario in 1936, under the name Brownlee Mines (1936) Limited. Pursuit was a public company engaged in the business of exploration and development of mineral properties for many years.

Pursuit was involved in the exploration, evaluation and development of precious and base metal properties, involving primarily copper, for commercial exploitation. Most of Pursuit's business activities took place in the Philippines, Indonesia and Mongolia, through joint ventures and contracts of work to explore and develop mining properties.

For example, in April 1995, Pursuit entered into a joint venture agreement to explore and develop the Hinoba-an copper deposit, located in the southwest part of the island of Negros in the Republic of the Philippines. Pursuant to this agreement, Pursuit earned a 50% interest in the Hinoba-an property by incurring Cdn$9,600,000 of exploration expenditures and by making aggregate option payments of Cdn$300,000. In addition, 50% of certain expenditures made by Pursuit in excess of the Cdn$9,600,000 minimum were to be repaid to Pursuit with interest. Pursuit also had the right to obtain the remaining 50% interest in Hinoba-an for a purchase price of Cdn$15,000,000, payable to the joint venture partner through a net smelter return from anticipated production. Pursuant to this arrangement, Pursuit expended over Cdn$14,700,000 on the Hinoba-an property (including option payments and accrued interest) through

December 1998 and acquired a 100% interest in the property in 1999 through the bankruptcy of its joint venture partner. However, during this time the world price of copper declined, and Pursuit placed the Hinoba-an project on hold. In December 2001, Pursuit executed an agreement with Hinoba Holdings Limited, granting an option to acquire all of the rights to the Hinoba-an project for 7.5% of Hinoba Holdings Limited shares and $5 million payable within 18 months of having achieved commercial production. Neither party fully performed under that agreement. Pursuit discontinued efforts to exploit or sell the project, and halted financing to the subsidiary holding the underlying title to the Hinoba-an property. In 2003, Apollo Gold Corporation sold its remaining interest in this project, including its equity interests in the subsidiary holding title to the Hinoba-an project and the contingent $5 million receivable, for $76,287. In connection with that transaction, Hinoba Holdings Limited released us from and agreed to indemnify us against any past, present or future third party claims associated with the Hinoba-an project. We no longer hold any interest in Pursuit's former Philippine Islands properties.

Pursuit's Indonesian transactions were in the form of contracts of work ("CoWs"), project-specific agreements granted by the President of Indonesia, with terms of approximately 30 years. After conducting preliminary negotiations for a number of CoWs, in February 1998 Pursuit entered into two CoWs for the Mahakan East and Mahakan West properties in Indonesia, and paid a security deposit of $100,000 for each property plus a bank guarantee of $0.60 per hectare less the security deposit. Pursuit also obtained temporary exploration licenses for each property. In 1998, Pursuit expended approximately Cdn$1,066,000 on the exploration of the Indonesian properties.

As the world price of copper declined significantly in the late 1990s and third world countries experienced recessions and, in the case of Indonesia, political unrest, Pursuit adopted a policy designed to maintain its mineral properties in good standing and to seek out joint venture partners until such time as world copper prices recovered and the political situation in Indonesia stabilized. We are not currently maintaining the corporate franchises of, or otherwise financially supporting, Pursuit's discontinued Indonesian subsidiaries.

In 1999 and 2000, Pursuit also investigated business opportunities outside the mining industry. In June 1999, Pursuit entered into a joint venture with StockSet Associates to develop and manage a financial Internet site through a newly formed corporation, StockSet.com. Pursuit invested $61,142 for a 50% interest in StockSet.com. In March 2000, Pursuit sold its interest in StockSet.com to a company controlled by a relative of a then-officer and director of Pursuit for consideration of Cdn$500,000.

In November 2001, Pursuit was notified by the Toronto Stock Exchange ("TSX") that its shares would be delisted if it did not comply with the TSX's continued listing requirements within 120 days. Pursuit then sought out potential acquisition and merger opportunities, which eventually led it to amalgamate with Nevoro Gold Corporation.

NEVORO GOLD CORPORATION (PRIOR TO THE PLAN OF ARRANGEMENT)

Nevoro was a private company incorporated under the Canada Business Corporations Act in February 2002. In March 2002, Nevoro acquired all of the outstanding common stock of AGI. The acquisition included AGI's wholly-owned subsidiaries, Montana, Inc. and Florida, Inc.

AGI was originally incorporated under the General Corporation Law of the State of Delaware on December 16, 1998. AGI commenced business on February 5, 1999, pursuant to a plan of reorganization ("Plan of Reorganization") involving Pegasus Gold International, Inc. ("PGII"), Diamond Hill Mining, Inc. ("Diamond Hill, Inc."), Florida Canyon Mining, Inc. ("Florida, Inc."), and Montana Tunnels Mining, Inc. ("Montana, Inc."), all of whom voluntarily filed for protection under Chapter 11 of the United States Bankruptcy Code on January 16, 1998.

Under the Plan of Reorganization, PGII was reincorporated in Delaware and renamed Apollo Gold, Inc., and its common stock was distributed to certain former creditors of PGII, Diamond Hill, Inc., Florida, Inc. and Montana, Inc. AGI became the parent holding company for the reorganized Diamond Hill, Inc., Florida, Inc., and Montana, Inc. entities, all of which were also reincorporated in Delaware but retained their former names. Under the Plan of Reorganization, AGI and its three subsidiaries were discharged from all liabilities not asserted prior to the applicable bar dates or otherwise provided for in the Plan of Reorganization to the maximum extent permitted by the United States Bankruptcy Code. Following emergence from bankruptcy protection, AGI and its subsidiaries carried on mining and exploration activities under new management and with the benefit of the protection afforded by the Plan of Reorganization and the United States Bankruptcy Code against unsatisfied liabilities associated with its former ultimate parent company Pegasus Gold Inc. ("PGI") and other former PGI affiliates.

On January 1, 2002, Diamond Hill, Inc. was merged into Montana, Inc. and became an unincorporated division of Montana, Inc. On March 26, 2002, Nevoro acquired 100% of the common stock of AGI from a shareholder group controlled by a syndicate of banks through the merger of Nevoro Gold USA Inc., a Delaware corporation and wholly-owned subsidiary of Nevoro, with and into AGI, resulting

in AGI becoming a wholly-owned subsidiary of Nevoro.

PURSUIT AND NEVORO PLAN OF ARRANGEMENT

On June 25, 2002, as a result of Pursuit's extensive search for acquisition and merger opportunities and after extensive discussions and negotiations, Pursuit and Nevoro obtained court approval for the Plan of Arrangement that formed Apollo Gold Corporation. On March 24, 2002, Pursuit conducted a private placement of $23 million principal amount of 0.0% secured convertible debentures and related warrants (the "Debentures") through registered dealers (the "Agents") on a best efforts agency basis. In connection with the private placement of Debentures, Pursuit issued compensation warrants (the "Compensation Warrants") to the Agents to purchase an aggregate of 718,750 shares of our common stock at an exercise price of $1.60 with such warrants being exercisable for two years from the date of issuance. Approximately $11 million of the proceeds from the sale of the Debentures were loaned by Pursuit to Nevoro to facilitate the acquisition of Apollo Gold, Inc., and the remaining amount was used to fund our operations, including the Montana Tunnels Mine pre-stripping project.

The Plan of Arrangement involved the following steps, which were deemed to have occurred in the following order on June 25, 2002 (the "Effective Date"):

(a) the outstanding shares of Pursuit (the "Pursuit Shares") (excluding any Pursuit Shares issued pursuant to the conversion of the Debentures or issued upon exercise of the Compensation Warrants) were consolidated (the "Pursuit Share Consolidation") on a basis of one Pursuit Share for each 43.57 Pursuit Shares previously held by the Pursuit shareholders;

(b) the terms of each of Pursuit's outstanding common share options (the "Pursuit Options") were amended to: (i) consolidate the number of Pursuit Shares which the holder of the Pursuit Option was entitled to acquire upon the exercise thereof on the basis of one Pursuit Share for every 43.57 Pursuit Shares which the Pursuit Option previously entitled the holder to acquire; and (ii) to increase the purchase price of the Pursuit Shares which the Pursuit Option entitled the holder to acquire by the amount stipulated by the terms governing such Pursuit Option in the event of a consolidation in the share capital of Pursuit;

(c) all of the outstanding Debentures were converted into the underlying Pursuit Shares and common share purchase warrants of Pursuit (the "Pursuit Warrants") in accordance with their terms;

(d) immediately following the Pursuit Share Consolidation, all of the Pursuit Shares outstanding on the Effective Date were exchanged for shares of our common stock on the basis of one share for each one Pursuit Share held;

(e) all of the outstanding Pursuit Options (as amended in accordance with paragraph (b) above) were exchanged for options to acquire shares of our common stock on the basis of one option for each Pursuit Option held;

(f) all Pursuit Warrants outstanding on the Effective Date were exchanged for warrants to purchase shares of our common stock on the basis of one warrant for each one Pursuit Warrant held;

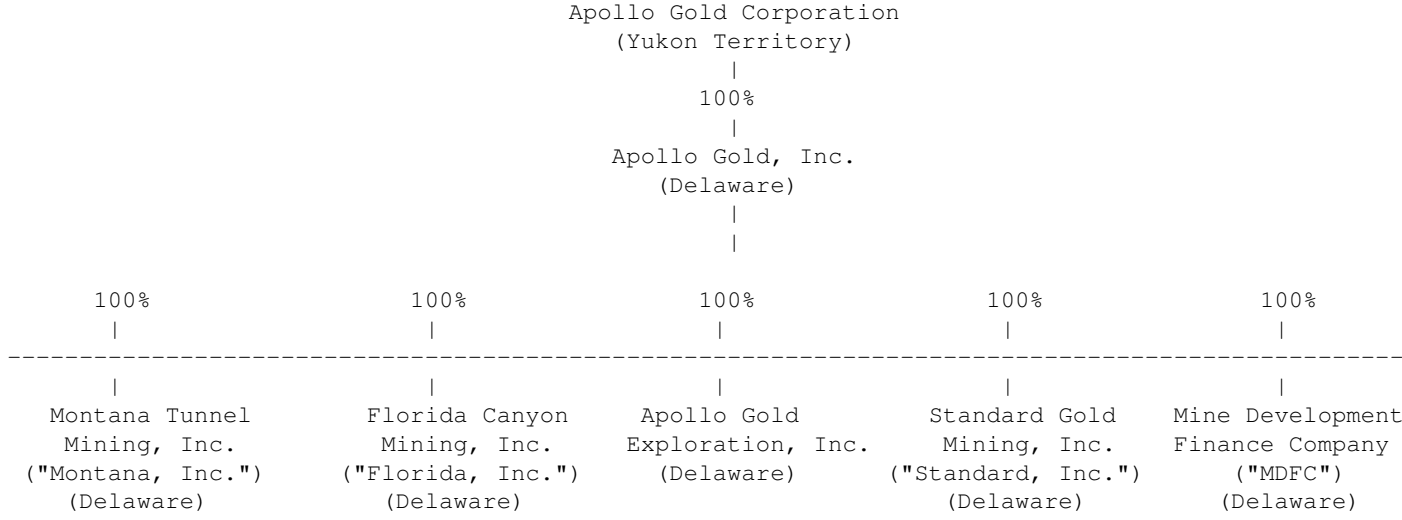
(g) all Compensation Warrants outstanding on the Effective Date were exchanged for warrants to purchase shares of our common stock on the basis of one warrant for each one Compensation Warrant held;

(h) all Nevoro common shares outstanding on the Effective Date were exchanged for an aggregate of 1,970,000 shares of our common stock; and

(i) Pursuit acquired Nevoro and the operations of Pursuit and Nevoro were merged.

APOLLO GOLD CORPORATION

The following chart illustrates our operations and principal operating subsidiaries, their jurisdictions of incorporation and the percentages of their voting securities beneficially held by us as of March 15, 2004.



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NOTES:

APOLLO GOLD CORPORATION: American Stock Exchange listed and Toronto Stock Exchange listed holding company; owns and operates the Black Fox development Property.

APOLLO GOLD, INC.: United States holding company employing United States corporate officers and furnishes corporate services.

MONTANA, INC.: Owns and operates the Montana Tunnels Mine and Diamond Hill Mine, an exploration property.

FLORIDA, INC.: Owns and operates the Florida Canyon Mine.

APOLLO GOLD EXPLORATION, INC.: Holds United States exploration land positions not tied to any existing operating subsidiary.

STANDARD GOLD MINING, INC.: Owns and operates the Standard Mine development project.

MINE DEVELOPMENT FINANCE COMPANY: Provides intercompany loans and other financial services to affiliated companies.

PRODUCTS

Our mines primarily produce gold but also yield quantities of silver, zinc and lead. We sell gold and these other metals principally to custom smelters and metals traders. The percentage of sales contributed by each class of product is reflected in the following table:

	Periods			
Product	2003	2002	2001	2000
Gold	79%	85%	67%	72%
Zinc	13%	11%	20%	17%
Other metals	8%	04%	13%	11%

GOLD

GOLD PRODUCTION

We produced 145,935 ounces of gold during the year ended December 31, 2003. We produced 148,173 ounces of gold in the year ended December 31, 2002, and 192,887 ounces and 259,863 ounces in the years ended December 31, 2001 and 2000, respectively. For the year ended December 31, 2003, 70% of our gold production came from our Florida Canyon Mine, and 30% from our Montana Tunnels Mine. In 2002, 82% of our gold production came from our Florida Canyon Mine, and 18% from our Montana Tunnels Mine. Approximately 63% of our gold production in 2001 came from our Florida Canyon Mine and the remaining 37% from our Montana Tunnels

Mine. In 2000, 65% of our gold production came from our Florida Canyon Mine, and 35% from our Montana Tunnels Mine.

GOLD USES

Gold is used for two primary purposes: product fabrication and bullion investment. Fabricated gold has a variety of end uses, including jewelry, electronics, dentistry, industrial and decorative uses, medals, medallions and official coins. Gold investors purchase gold bullion, official coins and high-carat jewelry.

Most of our revenue is derived from the sale of refined gold in the international market. However, our end product is dore bars. Because dore is an alloy consisting primarily of gold but also containing silver and other metals, dore bars are sent to refiners to produce bullion that meets the required market standard of 99.95% pure gold. Under the terms of our refining contracts, the dore bars are refined for a fee, and our share of the refined gold and the separately recovered silver is paid to us.

GOLD SUPPLY

The worldwide supply of gold consists of a combination of new production from mining and existing stocks of bullion and fabricated gold held by governments, financial institutions, industrial organizations and private individuals.

GOLD PRICES

The price of gold is affected by numerous factors that are beyond our

control. See "Risk Factors - Risks Relating to the Metals Mining Industry".

The following table presents the annual high, low and average afternoon fixing prices over the past three years, for gold per ounce on the London Bullion Market:

Year	High	Low	Average
2001	$ 293	$ 256	$ 271
2002	$ 348	$ 278	$ 310
2003	$ 417	$ 319	$ 363

SILVER AND OTHER METALS

SILVER. We produced 471,241 ounces of silver during the year ended December 31, 2003, 275,925 ounces in the year ended December 31, 2002, and 963,050 ounces and 1,257,972 ounces in the years ended December 31, 2001 and 2000, respectively. Our silver production is obtained from mining operations in which silver is not our principal or primary product, but is produced as a by-product of mining gold deposits. For the year ended December 31, 2003, 13% of our silver production came from our Florida Canyon Mine, and 87% from our Montana Tunnels Mine. Approximately 74% of our silver production came from our Montana Tunnels Mine and the remaining 26% from our Florida Canyon Mine in the year ended December 31, 2002. Silver has traditionally served as a medium of exchange, much like gold. While silver continues to be used for currency, the principal uses of silver are for industrial uses, primarily for electrical and electronic components, photography, jewelry and silverware. Silver's strength, malleability, ductility, thermal and electrical conductivity, sensitivity to light and ability to endure extreme changes in temperature combine to make

silver a widely used industrial metal. Specifically, it is used in photography, batteries, computer chips, electrical contacts, and high technology printing. Silver's anti-bacterial properties also make it valuable for use in medicine and in water purification.

OTHER METALS. Production from the Montana Tunnels Mine also includes the extraction, processing and sale of zinc and lead contained in sulfide concentrates. Due to its corrosion resisting property, zinc is used primarily as the coating in galvanized steel. Galvanized steel is widely used in construction of infrastructure, housing and office buildings. In the automotive industry, zinc is used for galvanizing and die-casting, and in the vulcanization of tires. Smaller quantities of various forms of zinc are used in the chemical and pharmaceutical industries, including fertilizers, food supplements and cosmetics, and in specialty electronic applications such as satellite receivers.

The primary use of lead is in motor vehicle batteries, but it is also used in cable sheathing, solder in printed wiring circuits, shot for ammunition and alloying. Lead in chemical form is used in alloys, glass and plastics.

The price of silver, lead and zinc is affected by numerous factors that are beyond our control. See "Risk Factors - Risks Relating to the Metals Mining Industry".

REFINING PROCESS

We have agreements with Johnson Matthey to refine our gold dore to a final finished product. Johnson Matthey receives $0.50 for each ounce of gold it refines, in addition to receiving a fee of 0.50% of the payable metal for silver

and 0.10% of the payable metal for gold.

Our lead and zinc concentrates are shipped to Teck Cominco Metals Ltd. ("Teck Cominco") in British Columbia, Canada. Teck Cominco's smelter is located in Trail, British Columbia, and is approximately five hours, via train, from the Montana Tunnels Mine. In order to alleviate as much risk as possible regarding the smelting process, we have chosen to enter into a contract with Teck Cominco until March 2005. For further information see "Florida Canyon Mine and Montana Tunnels Mine."

ITEM 2. PROPERTIES

MINING PROPERTIES AND OPERATIONS

Through our two wholly-owned subsidiaries, Florida, Inc. and Montana, Inc., we have two currently operating mines: the Florida Canyon Mine, a low grade heap leach gold mine, and the Montana Tunnels Mine, a gold mine.

The following table presents certain information regarding our metal mining properties, including the relative percentage each contributed to our sales for the year ended December 31, 2003:

Name of Property	Ownership Interest	Percentage of 2003 Sales
Montana Tunnels Mine	100%	46%
Florida Canyon Mine	100%	54%

Florida, Inc. and Montana, Inc. land holdings are primarily divided into two categories, unpatented mining claims and fee acreage/patented mining claims.

Our unpatented mining claims require annual filings with the United States Bureau of Land Management and the county where the claims are held. A $100 per claim maintenance fee is paid to the United States Bureau of Land Management on or before September 1 of each year. An affidavit of notice of intent to hold unpatented mining claims and notice of maintenance fee payment in lieu of assessment work is filed with the county recorder on or before November 1 of each year. The notices and fees are filed and paid on a yearly basis and currently all claims are in good standing.

Fee acreage/patented mining claims are lands owned by us. To the best of our knowledge, our owned patented claims have been legally located, documented, recorded and maintained in compliance with applicable state and federal laws, and there are no violations of, or defaults under, any obligation of such lands.

We also have various leases and agreements for small parcels of land. To our knowledge, each lease is in full force and effect and valid and enforceable in accordance with its terms.

GLOSSARY OF TERMS

The following are definitions of certain abbreviations used in this Business section:

"AG" means silver.

"AU" means gold.

"AUEQ" means gold equivalent.

"FE" means iron.

"FLOTATION" means a concentration process selectively attaching valuable minerals to air bubbles in a chemical solution.

"GPM" means gallons per minute.

"ISO" means International Standards Organization.

"MA" means million years before present.

"NPI" means net profit interest, a royalty based on the market value of the gold produced less the cost of refining and transportation.

"NSR" means net smelter return.

"ORE" means material that can be economically mined and processed.

"OZ AG/TON" means ounces silver per short ton (oz/ton).

"OZ AU/TON" means ounces gold per short ton (oz/ton).

"PB" means lead.

"ROM" means run of mine (leaching of uncrushed materials).

"RQD" means rock quality designation.

"RC OR RVC" means reverse circulation drilling method.

"STRIP (OR STRIPPING) RATIO" means the tonnage of waste material removed to allow the mining of one ton of ore in an open pit.

"SULFIDE ORE" means mineralization contained in the form of a sulfide.

"T" or "TON" means short ton.

"TPD" means short tons per day.

"ZN" means zinc.

FLORIDA CANYON MINE

The Florida Canyon Mine is owned and operated by Florida, Inc. Florida Canyon Mine is a low grade, open pit, heap leach operation located near Winnemucca, Nevada. Daily production totals approximately 30,000 tons of crusher ore (ore that is crushed to specified grades) and run-of-mine ore (uncrushed ore) that is placed on a permanent leach pad for heap leaching to recover gold and silver. The Florida Canyon Mine has operated since 1986. For the year ended December 31, 2003, a total of 8,625,912 tons containing 132,232 ounces of gold had been placed on the leach pad and 101,811 ounces of gold had been recovered. Slightly lower amounts of silver have also been recovered.

The Standard Mine is a development project located south of the Florida

Canyon Mine and is currently owned by Standard Gold Mining, Inc. Historically, the Standard Mine project assets have been part of the Florida Canyon Mine and therefore the production and other information in this Annual Report on Form 10-K for the Florida Canyon Mine includes data for the Standard Mine project. However, in the fourth quarter of 2003 we transferred the Standard Mine project assets into one of our wholly-owned subsidiaries, Standard Gold Mining, Inc.

Location. The Florida Canyon Mine is located about 42 miles south of Winnemucca, Nevada, just off Interstate 80 at the Humboldt exit. The pits, waste dumps, and facilities are located in sections 1, 2, 3, 10, 11, and 12 of T31N, R33E and sections 34, 35 of T32N, R33E Mount Diablo Base & Meridian, Pershing County, Nevada. The approximate location of the deposit is longitude 118 14' and latitude 40 35'. The Standard Mine Area is located approximately five miles south of the Florida Canyon Mine.

Land Area. The land that we own, lease or control at the Florida Canyon Mine covers a total of 15,456 acres. Fee lands total 4,075.81 acres, while 19 patented claims total 359.9 acres. We also maintain 579 unpatented claims that total 11,580 acres. The fee lands and patented claims and most of the unpatented

claims have been surveyed. Land lease and option payments and unpatented claim maintenance fees total $823,975 for 2002 and 2003, after which the total land cost drops to $115,900 annually. The Florida Canyon Mine operating permit area contains 5,522 acres. We have disturbed approximately 1,958 acres of land, consisting of 1,034 acres of public lands and 923 acres of fee (private) lands. Mining the remaining reserves will add 77 acres of disturbance, of which 24 acres are public lands and 53 acres are private lands. We expect approval in late June 2004 to mine the additional reserves. The land that we own or lease at the Standard Mine covers a total of 6,087 acres, and fee lands total 1,926.89 acres. We also maintain 208 unpatented claims that total 4,160 acres at the Standard Mine.

Production. We have historically processed approximately 10 million tons of ore annually at the Florida Canyon Mine. Approximately 45% of the ore is crushed to 80% passing 0.75 inch and 55% of the ore is run-of-mine ore placed directly on the leach heap. Production from the Florida Canyon Mine operation is summarized in Table 1.

This table presents data from the Florida Canyon Mine property. All production is subject to a 2.5% net smelter return (NSR) royalty.

TABLE 1 FLORIDA CANYON PRODUCTION HISTORY

MINE REPORT	CRUSHER REPORT			RUN OF MINE			TOTAL ORE (FROM CRUSHER REPORT)				
YEAR	MINE ORE TONS 000'S	GRADE OZ AU/T	GOLD OUNCES 000'S	CRUSHER ORE TONS 000'S	GRADE OZ AU/ TONS	GOLD OUNCES 000'S	RUN OF MINE ORE TONS 000'S	GRADE OZ AU/T TONS	GOLD OUNCES 000'S	TOTAL ORE TONS 000'S	O
1999	5,584	0.0262	146	5,441	0.0261	142	7,394	0.0123	91	12,835	
2000	4,596	0.0297	137	4,815	0.0299	144	5,702	0.0123	70	10,516	
2001	3,593	0.0208	75	3,719	0.0207	77	6,035	0.0116	70	9,754	
2002	4,368	0.0228	100	4,221	0.0229	97	4,098	0.0119	49	8,319	
2003	3,804	0.0203	77	2,806	0.0203	77	4,822	0.0114	55	8,625	

TOTALS	21,945	0.0244	535	22,022	0.0244	537	28,051	0.0119	335	50,049

Mining Claim Description. Mining operations and facilities are on Sections 1, 2, 3, 10, 11, and 12 of T31N, R33E, Mount Diablo Base and Meridian, Pershing County, Nevada. The mineralization and facilities extend to the north in Sections 34 and 35 of T32N, R33E, Mount Diablo Base and Meridian. Usually only 36 sections are in each township, however, in T31N, R33E, Sections 37, 38, and 39 are included due to old government surveying problems leaving gaps between the normal sections.

Agreements and Encumbrances. All current reserves at the Florida Canyon Mine deposit are subject to a 2.5% net smelter return royalty. Other Florida Canyon Mine property is subject to royalties shown in Table 2.

TABLE 2 ROYALTY AGREEMENTS

Ranleigh International Corp.	2.5% NSR +8 Square Mile Area Centered on Florida Canyon Mine
Asarco, McCullough	2.0% NPI NE1/4 of NE1/4 Section 11 T31N R33E
Hall	2.5% NSR Madre & Calaveras Patented Claims, Sections 2 &12 T31N, R33E
Muller Investments	1.0% NSR NE1/4 of NW1.4; S1/2 of NW1/4, Section 1 T30N R33E

We have paid royalties of $898,104, $508,000 and $0, respectively, in the years ended December 31, 2003, 2002 and 2001.

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The annual holding costs of Florida Canyon Mine, exclusive of property taxes, are shown in Table 3.

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TABLE 3 FLORIDA, INC. & STANDARD GOLD MINING, INC. LAND HOLDING COSTS

PROPERTY	2002	2003	ANNUAL AFTER 2003	ROYALTY
Hanna Hall	$ 7,200	$ 7,200	$ 7,200	2.5% NSR
Asarco	$ 10,000	$ 10,000	$ 10,000	1.0% NPI
Herbert McCullough				1.0% NPI
Ranleigh International				2.5% NSR
Campbell	$ 40,000	$471,175		
Campbell	$ 54,000	$110,000		
Rex Resources	$ 6,000	$ 11,000		
Muller Investments	$ 20,000	$ 20,000	$ 20,000	1% NSR
Unpatented Claims	$ 55,100	$ 78,700	$ 78,700	
TOTALS	$192,300	$708,075	$ 115,900	

Mine equipment at our Florida Canyon Mine is held under installment purchase agreements and capital leases with Caterpillar Financial Services

Corporation and a capital lease with ATEL Equipment Leasing. The total initial purchase price of mine equipment was approximately $34.72 million. As of February 29, 2004, the balance owed was approximately $4.56 million.

At February 29, 2004, the net book value of the Florida Canyon Mine and its associated plant and equipment was approximately $9.55 million.

Environmental Liabilities. The Florida Canyon Mine has been in continuous operation since 1986. The original permit to operate was granted by the U.S. Bureau of Land Management ("BLM") and the Nevada Department of Environmental Protection ("NDEP") Reclamation Permit 126. The remaining reserves are the subject of the 17 sequentially numbered amendments to the Florida Canyon Mine operating plan. The current permit area encompasses approximately 5,522 acres of privately owned Florida, Inc. lands and BLM-administered public lands. The 17th amendment ("APO 17") did not propose any new disturbance; however, overall authorized disturbance within the permit area was reduced by 5.9 acres. Florida, Inc.'s existing and approved operations comprise a total of 1,957.5 disturbance acres consisting of 1,034.1 acres of disturbance on public land administered by the BLM, and approximately 923.4 acres of disturbance on private land. An 18th amendment ("APO 18") was submitted in December 2003 seeking approval to mine additional reserves identified in the Switchback Pit area and expand the existing heap leach pad to accommodate approximately 20 million tons of ore. An environmental assessment is currently being prepared by a third-party contractor. Any development of additional reserves will require additional amendments.

We are required to maintain reclamation bonds covering the costs of reclaiming all disturbances at our mines as established by regulatory authorities from time to time. Bonding requirements for the Florida Canyon Mine were met by the following bond instruments:

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TYPE OF BONDING	PENAL SUM AS AT YEAR END	
	2002	2003
Unsecured surety bond issued by Safeco and subject to the final judgment described below:	$ 16,936,130	$ 16,936,130
Unsecured surety bond issued by Safeco pursuant to the "Montana Settlement Agreement" described below:	$ 520,000	$ 520,000
Personal bond secured by irrevocable stand-by letter of credit issued by Washington Mutual Bank:	$ 3,537,745	$ 3,703,149
TOTAL BONDING REQUIREMENT MET:	$ 20,993,875	$ 21,159,279

The first two reclamation bonds totaling $17,456,130 were issued by Safeco Insurance Company of America ("Safeco"). In 1999, Safeco cancelled the first bond in the amount of $16,936,130; however, prior to the effective date of cancellation, the U.S. District Court for the District of Nevada entered a declaratory judgment holding that Safeco's cancellation does not affect the BLM's right to treat the bond as remaining "outstanding" as part of the required bonding for the Florida Canyon Mine and that ongoing mining under our plan of

operation does not affect Safeco's obligations under the bond upon eventual completion of mining. In reliance on that judgment, BLM has counted the cancelled Safeco bond towards satisfaction of our bonding requirements and has permitted us to continue to mine both inside and outside the area covered by the cancelled Safeco bond. On May 29, 2003, a not-for-publication memorandum decision was delivered by a three-judge panel of the Ninth Circuit Court of Appeals affirming the U.S. District Court judgment in our favor. Safeco did not file notice of any further appeal within the period permitted, and the District Court judgment has become final. A more complete description of the litigation among Safeco, the United States, the State of Nevada, and us with respect to the cancelled Safeco bond is included below under "Legal Proceedings". In view of Safeco's cancellation of the bond, Safeco has not invoiced us for, and we have not paid, any premium on, the cancelled Safeco bond since August 15, 1999. Safeco's future intention with respect to the cancelled bond is not known.

The unsecured Safeco-issued bond in the amount of $16,936,130 covers only disturbances within the area disturbed as of August 15, 1999, and further disturbances within that area. The second Safeco bond in the amount of $520,000 carries an annual bond premium of $6,500. Safeco issued that bond in 2001 under a settlement agreement preventing cancellation until May 1, 2003. Safeco has extended the $520,000 bond to May 1, 2004, and has advised that it will further extend the bond to May 1, 2005. That bond was furnished by Safeco as part of its obligations under the settlement agreement resolving related litigation involving Safeco, Diamond Hill, Inc., the United States, and the State of Montana as more completely described below under "Legal Proceedings". The $520,000 Safeco bond covers all disturbances within the Florida Canyon Mine site's area of operations.

The $3,527,270 personal bond issued to Florida, Inc. is secured by an irrevocable stand-by letter of credit in the same amount issued by Washington Mutual Bank for the benefit of BLM. We are required to maintain a deposit account pledged to Washington Mutual Bank equal to 100% of the amount available for drawing under the letter of credit to secure Washington Mutual Bank's obligations under the letter of credit. We pay annual letter of credit fees equal to 1.5% of the face amount of the letter of credit. We earn interest on the pledged deposit account at the rate established by Washington Mutual Bank from time to time.

We have not yet made arrangements for meeting increased bonding requirements likely to be imposed in connection with mine expansion plans scheduled for 2004.

The bonding requirements for the Standard Mine development project were met by the following bond instruments:

TYPE OF BONDING	PENAL SUM AS AT YEAR END	
SECURITY	2002	2003
Personal bond secured by irrevocable stand-by letter of credit issued by Washington Mutual Bank:	$ 96,410	$ 96,410
Personal bond secured by pledge of deposit account maintained with Washington Mutual Bank:	$ 8,500	$ 8,500

REQUIREMENT MET:	$ 104,910	$ 104,910

The $96,410 personal bond is secured by an irrevocable stand-by letter of credit in the same amount issued by Washington Mutual Bank for the benefit of BLM. We are required to maintain a deposit account pledged to Washington Mutual Bank equal to 100% of the amount available for drawing to secure Washington Mutual Bank's obligations under the letter of credit. We pay annual letter of credit fees equal to 2.0% of the face amount of the letter of credit. We earn interest on the pledged deposit account at the rate established by Washington Mutual Bank from time to time. The $8,500 personal bond is secured by direct pledge to BLM of a certificate of deposit equal to 100% of the penal sum of the bond. We do not pay any fees. We earn interest on the pledged certificate of deposit at the rate established by Washington Mutual Bank from time to time. We intend to substitute Standard, Inc. for Florida, Inc. as bond principal on all bonding for the Standard Mine area. The bonding requirement will increase by a material amount upon approval of the Standard Mine area permit applications that are currently pending prior to commencement of mining scheduled for 2004. We have not yet arranged for issuance of bonding to cover mining operations.

Like all mine operators, we always face the risk of redetermination of bonding requirements as a result of changes in regulatory agency assumptions and methodology used to establish bonding requirements, and there can be no assurance that our bond requirements will remain the same.

As of December 31, 2003, we estimate accrued closure costs at the Florida Canyon Mine to be an aggregate of $12.5 million (including severance costs of $1.6 million), of which $1.0 million has already been completed. Following approval of APO 18, internal closure costs are estimated to increase to approximately $15.1 million, of which $2.0 million will be completed in 2004. The $15.1 million post-APO 18 closure costs do not include employee severance.

Florida Canyon Mine and Standard Mine Area Geology. The Florida Canyon Mine and Standard Mine Area deposits are situated in the Basin and Range physiographic province of northwestern Nevada, typified by a series of northward-trending elongated mountain ranges separated by alluvial valleys. The deposits are located in the Humboldt Range, which is formed by north-trending folding and faulting.

The Florida Canyon and Standard Mine Area are dominated by a major regional structural zone, termed the Humboldt Structural Zone, which is a 200 km wide northeasterly-trending structural zone with left-lateral strike slip movement. Permo-Triassic rocks of the Rochester Rhyolite, Prida Formation, Natchez Pass Formation, and Grass Valley Formation are all exposed in the Florida Canyon

area. The Humboldt City Thrust separates the Natchez Pass and Grass Valley formations from the underlying Prida Formation. There is a strong N30 degrees E to N50 degrees E structural fabric prevalent in and adjacent to the Florida Canyon Mine and Standard Mine deposits, as evidenced by the alignment of quartz veining, shear zones, and well-developed joint sets.

Mineralization at the Florida Canyon Mine consists of native gold and electrum, an alloy of gold and silver associated with quartz, iron oxides, pyrite, marcasite, and arsenopyrite. Quartz is the major gangue mineral. Secondary minerals identified in the Florida Canyon Mine deposits include gypsum (likely remobilized from the Grass Valley Formation), alunite, barite, native sulfur, calcite, dolomite, anhydrite, pyrargyrite, pyrrhotite, and stibnite.

Gold mineralization at the Standard Mine Area deposits also consists of native gold and electrum generally associated with silicification and argillization at the contact between Grass Valley argillite and the underlying Natchez Pass limestone.

Florida Canyon Mine and Standard Mine Area Drilling and Sampling. The Florida Canyon Mine property is situated in the Imlay Mining District in Pershing County, Nevada. Historically, the only significant gold production in the area came from the Standard Mine between 1939 to 1942 and 1946 to 1949. Modern exploration at Florida Canyon Mine began in 1969. It has been explored by five different mining and exploration companies. Table 4 summarizes the drilling on the Florida Canyon Mine property between 1969 and December 31, 2003, which totals over 1.9 million feet in 4,476 drill holes; this also includes 857 holes totaling 240,139 feet that were drilled in the Standard Mine Area.

TABLE 4 FLORIDA CANYON MINE AND STANDARD MINE DRILL HOLE DATABASE SUMMARY

(Florida Canyon Mine Area Drilling)

DRILL TYPE	NUMBER OF HOLES	FOOTAGE
Core	55	34,522
Reverse Circulation & Rotary	3,561	1,598,052
TOTAL	3,616	1,632,574
Number of Samples 299,304		

(Standard Mine Area Drilling)

DRILL TYPE	NUMBER OF HOLES	FOOTAGE
Core	11	1,983
Reverse Circulation & Rotary	842	237,005
TOTAL	853	238,988
Number of Samples 43,892		

The reverse circulation drilling we have completed is done wet from the surface, with a 10 to 15 lb sample collected from a wet rotary splitter. American Assay Labs of Sparks, Nevada completed most of the analyses of Florida Canyon drill hole samples. Gold analysis is by standard fire assay with either atomic absorption or gravimetric finish.

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About 10% of the drill samples we have completed were analyzed in duplicate. Mine Development Associates, an independent mining testing firm, examined the checked assay data which showed good correlation between the original and duplicate data. In addition to internal checks, American Assay continually monitors the laboratory performance of our independent consultants.

Drill Hole Spacing. Measured oxide resources for the Florida Canyon Mine are classified as those model blocks with at least three composites within one-half the distance of the variogram range; indicated resources are model blocks with at least two composites within the distance of the variogram range.

The drill hole spacing at Florida Canyon Mine and Standard Mine Area approximates a 100 foot grid. The variogram range varies between 40 feet and 170 feet. About 26% of the oxide resources at the mines are measured,

indicating the drill spacing is within of the variogram range, and 74% are defined as indicated, indicating spacing more than of the variogram range, but less than the full range. The variogram ranges at the Standard Mine Area are between 30 feet and 210 feet and are generally slightly longer than the ranges at the Florida Canyon Mine. At the Standard Mine Area approximately 54% of the resources are defined as measured. Kriging variance was used to define measured and indicated materials at the Standard Mine Area.

Florida Canyon Mine Reserves. The Florida Canyon Mine reserves include the remaining material from several pits with prior mining and some new areas that have not been mined. The pits for the new areas were designed using Whittle pit optimization at $400/ounce gold price to complete the design, and cut off grades based on $350/ounce gold price to determine reserves. Additional drilling was conducted in 2002 and 2003 in some of the new pit areas. The areas with prior mining include the Brown Derby, Central, Jasperoid Hill and Main Extension, while new areas include Headwaters, Northeast Extension, and Radio Towers West. The new areas are generally further up the slope of the Humboldt Range. Table 5 summarizes Florida Canyon Mine and Standard Mine Project reserves as of December 31, 2003, which conform to the definitions ascribed by the Canadian Institute of Mining, Metallurgy and Petroleum and guidelines adopted by CIM Counsil on August 20, 2000 and the United States Securities Exchange Commission Industry Guide 7 definitions of Proven and Probable reserves.

TABLE 5 FLORIDA CANYON MINE RESERVES

Area	Tons 000's	Grade oz Au/t	Ounces Au	Grade oz Ag/t	Ounces Ag
Florida Canyon Mine					
Proven & Probable Reserves	23,874.1	0.016	374.4	NA	NA
SUBTOTAL FLORIDA CANYON MINE	23,874.1	0.016	374.4	NA	NA
Standard Mine					
Proven & Probable Reserves	22,501.7	0.018	404.1	0.16	3,618.9
SUBTOTAL STANDARD MINE	22,501.7	0.018	404.1	0.16	3,618.9
TOTAL PROVEN AND PROBABLE RESERVES	46,375.8	0.017	778.5	9.16	3,618.9

Note: Mine Development Associates located at 210 South Rock Blvd., Reno Nevada 89052 is an independent mining engineering company, and completed its review of our reserve estimates in February 2004.

Florida Canyon Mine and Standard Mine Area Mineralized Material. The Florida Canyon Mine resources were modeled by our manager of exploration, with supporting work and input from our engineering and geology staff. In addition to a gold grade model, a geologic/mineralogic model was made to represent the

extent of each alteration/lithologic group recognized at the Florida Canyon Mine.

Grade population domains were used to restrict high-grade assays from smearing into lower grade domains. Domain boundaries that corresponded to each of the four gold composite populations were drawn on 20 feet spaced bench maps; these hard boundary polygons were used to code the drill composites and model blocks to each particular domain and constrain the estimate. We used a multi-pass technique to estimate block grades starting with measured resources

and ending with inferred material. Block grades were estimated by a combination of ordinary kriging and inverse distance techniques.

All of our mine pits have been developed from optimized pits based only on mineralized material. All of the pits are based on designed pit slopes with ramps, with the exception of the Star pit at our Standard Mine area. Most of our Standard Mine Area pits are side hill access, are not deep, and do not require an in-pit ramp system.

Florida Canyon Mine Operations. The Florida Canyon Mine generally operates two 10-hour shifts per day, six days per week. Generally, several pits are mined at the same time. All equipment utilized at the Florida Canyon Mine is leased or owned, and is in good working condition. Ore grade material is transported to the run of mine heap or the crusher stockpile. The run of mine material generally grades between 0.006 and 0.018 ounces of gold per short ton (oz/ton), however, the actual cut off grade is dependent on rock and alteration type. This material is dumped on the pad by 85-ton to 150-ton trucks, then bulldozed prior to leaching. The higher-grade material is crushed to 80% passing 0.75 inch and transported to the pad by a radial stacking conveyor.

Material is leached in three stages by drip systems, each applying 4,000 gallons per minute of leach solution to the heap. The first stage continues to leach older ore. The second stage may leach younger ore or run-of-mine materials. The third stage leaches the most recently crushed material on the pad. In this fashion, the grade of the leach solution builds as it travels through each stage. After the leach solution has traveled through all three stages, the solution is stored in the pregnant solution pond.

The pregnant leach solution is processed by absorbing the gold in the leach solution onto activated carbon. This is completed in one of the four carbon absorption plants on the property, each with five leach tanks. After the carbon has absorbed sufficient gold, the carbon is transported to the stripping, regeneration, and refinery plant. The carbon is stripped and the concentrated gold solution is pumped through electrowinning cells, where the gold is plated onto cathodes and then refined into gold/silver dore bars. Most of the makeup water used for leaching comes from a geothermal source located near the plant site.

The operation uses a six- month recovery cycle to model gold recovery for both run of mine and crushed materials. Table 6 shows the expected recovery for gold over the six-month period.

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TABLE 6 FLORIDA CANYON MINE HEAP LEACH RECOVERY MODEL

MONTH	CRUSHED RECOVERY	CUMULATIVE CRUSHED RECOVERY	ROM RECOVERY	CUMULATIVE ROM RECOVERY
1	13.4%	13.4%	4.1%	4.1%
2	22.1%	35.5%	19.3%	23.4%
3	21.2%	56.7%	18.6%	42.0%
4	13.1%	69.8%	11.4%	53.4%
5	4.6%	74.4%	4.1%	57.5%

Cutoff Grade Calculation. The internal cutoff grade calculation assumes

the material is already inside an optimum pit and must be mined. The decision is where to send the material. If a profit can be made by processing the material rather than sending it to the waste dump then the material should be processed. The internal cutoff grade calculation removes the mining cost from the cutoff calculation. A $350 ounce gold price is used for the cutoff grade calculation. Set forth below are the cutoff grades used for the respective mines.

For our Florida Canyon Mine two types of ore are processed. Higher grade material is sent to the crusher and after crushing is placed on the heap. The cutoff grade for this material ranges from 0.010 to 0.022 ounces of gold per short ton depending on location and type of rock. Material that is below this cutoff grade, but above a grade of 0.005 to 0.008 ounces of gold per short ton is sent to the heap without crushing, and termed run-of-mine (ROM) material.

For our Standard Mine all material would be run of mine (ROM). The cutoff grade for this material ranges from 0.005 to 0.006 ounces of gold per short ton.

MONTANA TUNNELS MINE

Our Montana Tunnels Mine, owned and operated by Montana, Inc., our wholly-owned subsidiary, is an open pit gold mine located approximately five miles west of Jefferson City, Montana, with gravity and flotation processing facilities. Operations at the Montana Tunnels Mine commenced in 1987.

Location. The Montana Tunnels Mine is located about five miles west of Jefferson City, Montana. We are currently operating a 16,000-ton per day flotation plant (upgraded in 2003) and open pit mine at the deposit. The Montana Tunnels Mine operation is located in the historic "Wickes-Corbin" mining district. Our plan involves mining inside the current open pit to extract the remaining reserves. We have also studied alternates for future expansion including underground mining and rerouting a creek to allow the pit to expand to the northwest.

Land Area. We own or lease an aggregate of 5,023.2 acres in fee and patented lands at the Montana Tunnels Mine. The property consists of 136 wholly or partially owned patented claims (2,345.14 acres), three patented leased claims (45.19 acres) expiring on March 19, 2004, and 2,632.87 acres of owned fee lands. All patented claims and fee lands have been surveyed. In addition, 213 unpatented claims are maintained (4,260 acres). We estimate that 90% of the unpatented claims have been surveyed. A number of claims outside the contiguous mining claims and fee land are isolated.

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Production. Production during 2003 was lower for the reasons stated below. Approximately 15% of its annual gold production in the form of dore, an unrefined material consisting of approximately 90% gold, which is then further refined. The remainder of the Montana Tunnels Mine's production is in the form of zinc-gold concentrate and a lead-gold concentrate. The concentrates are shipped to a smelter, and after smelting charges, we are paid for the metal content. The Montana Tunnels Mine was idle for approximately four months in 2002, while we removed waste rock at the Mine under our Phase I stripping program. Limited production resumed in October 2002, and full production on the K-Pit resumed in April 2003. Since that time, the Montana Tunnels Mine has experienced pit wall problems that have resulted in significant changes to the mine plan, including an accelerated Phase II stripping schedule to remove 10 million tons of material that slid off the southwest pit wall. We anticipate completing Phase II by mid-2004, which should provide a four-year mine life and a return to the historical gold production levels. We have all permits in place to complete this development.

The following table sets forth annual production levels for gold, silver, lead and zinc at the Montana Tunnels Mine since 1999:

TABLE 7 MONTANA TUNNELS MINE PRODUCTION HISTORY

YEAR	MILLION TONS	AU OZ AU/T	OZ AU	AG OZ AG/T	OZ AG 000'S	PB %	TONS PB 000'S	ZN %	TONS ZN
1999	5,076	0.0173	88.0	0.22	1,120.2	0.20	10.2	0.62	31.3
2000	5,384	0.0143	77.0	0.37	2,003.7	0.17	9.4	0.47	25.5
2001	5,424	0.0168	91.2	0.28	1,510.9	0.18	9.9	0.55	30.1
2002	2,881	0.0156	44.9	0.24	685.6	0.17	4.9	0.47	13.5
2003	4,663	0.0156	72.7	0.21	979.2	0.20	9.3	0.44	20.5
Totals	23,428	0.0159	373.8	0.27	6,299.6	0.19	43.7	0.51	120.9

Mining Claim Description. The Montana Tunnels Mine is located in Section 8 of Township 7 North, Range 4 West, while the permit boundary covers portions of Section 4, 5, 8, 9, 15, 16, 17, and 20. Mining claims that cover the pit are listed in Table 8. About half of Section 8 lands are our owned fee lands.

TABLE 8 CLAIMS COVERING MONTANA TUNNELS MINE

PATENTED CLAIMS	MINERAL SURVEY	UNPATENTED CLAIMS
Geraldine C	9184	MF 1
P.Q.C.	9184	F 14
Montana	9184	F 15
General Harris	2038	
Black Rock No. 2	9184	
Black Rock No. 3	8940	
D.E.D.	9184	
Placer	258	
Anna	8940	

Agreements and Encumbrances. None of the Montana Tunnels Mine reserves are subject to royalties, but we do have three leased claims that contain mineralization which will be subject to a 4.5% net smelter return royalty if

they are mined. The annual holding costs of Montana Tunnels Mine lands, exclusive of property taxes, total $47,150 as shown in Table 9.

TABLE 9 MONTANA, INC. LAND HOLDING COSTS

MONTH DUE	LESSOR	TYPE	$AMOUNT

January	James Madison	Easement	$ 5,000
March	MT Rail Link	Lease Rental	$ 5,000
	Louis F. Hill/Fremont River Development	Advance Royalty	$10,300
August	U.S. Bureau of Land Management	Unpatented Claim Fees	$21,300
September	MT Department of Highways	Lease Rental	$ 250
October	Fred L. Bell	Water Use Agreement	$ 300
November	Virginia & Pamela Bompart Agreement	Water Rights	$ 5,000
ANNUAL TOTAL			$47,150

Mine equipment at the Montana Tunnels Mine is financed on an installment note purchase basis with Caterpillar Financial Services, Inc. ("CAT Financial"). The total initial purchase price of mine equipment was $15,265,256. As of February 29, 2004, the balance owed to CAT Financial was approximately $2.1 million.

At December 31, 2003, the net book value of the Montana Tunnels Mine, determined in accordance with accounting principles generally accepted in the United States ("US GAAP"), and its associated plant, equipment and capitalized pre-stripping costs was approximately $17.8 million.

Environmental Liabilities. In 1998, the citizens of Montana passed Initiative I-137, which banned cyanide leach mining of gold and silver. We believe Initiative I-137 will have minimal, if any, impact on our mine located in Montana. Although we use cyanide in our leaching processes, the cyanide is not used in a manner prohibited by Initiative I-137. In addition, we have a permit to utilize cyanide in our leaching process at our Diamond Hill Mine. As of the date hereof, we are not aware of any other state or local regulation that would have a material impact on our operations.

In March 2002, the Montana Department of Environmental Quality approved a minor amendment to the operating permit for the Montana tunnels Mine that will allow expansion of the present pit to mine about 20 million tons of ore in our K-Pit, process and dispose of 20 million tons of tailings (waste materials removed from a mining circuit after separation of the valuable minerals), and mine and dispose of 30 million tons of waste rock. The permit allows raising the tailings embankment by about 40 feet, and mining the K-Pit. The permit boundary contains 2,116 acres with permitted disturbance totaling 1,176.4 acres. Our current tailings dam is permitted to accommodate tailings from the 19.6 million ton combined ore reserved from Pits K and L, which are currently scheduled to be mined out in the second quarter of 2006. Further, if we receive approval from the Montana Department of Environmental Quality of our expansion plans, we plan to renew a phased lifting of our tailings dam to accommodate processing of an additional 28.7 million ore tons which would result from such expansion plans.

The bonding requirements for the Montana Tunnels Mine were met by the following bond instruments:

TYPE OF BONDING	PENAL SUM AS AT YEAR END	
	2002	2003
Partially secured surety bond issued by CNA pursuant to the Term Bonding Agreement described immediately below:	$ 14,987,688	$ 14,987,688

Cash bond posted directly with the State of Montana:	0	128,697
Real estate bond posted directly with State of Montana:	0	296,912
TOTAL REQUIREMENT MET:	$ 14,987,688	$ 15,413,297

National Fire Insurance Company of Hartford, a unit of Continental Casualty Company ("CNA"), provides $14,987,688 of the total reclamation bonding for the Montana Tunnels Mine plan of operations at a deferred bond premium cost of $14 per $1,000 of bonding under a Term Bonding Agreement dated as of August 1, 2002. Under that agreement: (i) CNA is committed to furnish $14,987,688 in bonding for a 15-year term ending July 31, 2017; (ii) Montana, Inc. has agreed to deposit $75,000 each month (to be adjusted periodically according to our sales price of gold) into a collateral trust account established for CNA's benefit to secure Montana Tunnel Mine's reimbursement obligations to CNA until the value of the collateral trust account is equal to the outstanding penal sum of the CNA bond; (iii) Apollo Gold Corporation and Apollo Gold, Inc., have guaranteed Montana, Inc.'s obligations to CNA under the agreement; (iv) payment of premium is deferred without interest until the value of the collateral trust account equals the then-outstanding penal sum of the CNA bond; and (v) Montana, Inc. may terminate the agreement at any time by obtaining a release of the CNA bond either through posting a substitute bond with the State of Montana or otherwise, at which time all property held in the collateral trust account will revert to Montana, Inc.'s sole ownership. As of December 31, 2003, the collateral trust account held $1,827,981. As an incidental benefit, the Term Bonding Agreement also provides for an exploration surety bond with a penal sum of $53,186 to secure reclamation of exploration disturbances outside the Montana Tunnels Mine's permit boundary for the same 15-year term secured by the same collateral trust account.

The $128,697 in cash bond posted directly with the State of Montana does not require payment of any fees. However, interest accrues on cash balances at a short-term rate established by the State of Montana from time to time.

The $296,912 in real estate bonding is established by a bonding instrument recorded in the real estate records of Jefferson County, Montana. As of December 31, 2003, real property having an appraised value of approximately $422,500 was encumbered in order to meet the $296,912 bonding requirement. There are no on-going fees associated with the posting of the real estate bond. The real estate bond is in substance a mortgage, creating a security interest in the encumbered properties, and does not interfere with ongoing beneficial use of the encumbered properties by Montana, Inc., or its lessees.

Bonding requirements are subject to adjustment by the State of Montana for various reasons from time to time. As noted above, the bonding requirement for the Montana Tunnels Mine increased from $14,987,688 to $15,413,297 over the course of 2003. As of March 21, 2004, the bonding requirement is scheduled to increase to $15,888,955.

The Environmental Management Bureau of the Montana Department of Environmental Quality is required to inspect the site twice each year for compliance, with a written report required for each visit. The Montana Department of Environmental Quality Air Quality Bureau is required to inspect the site a minimum of once per year to review emissions. Other environmental inspections completed by regulatory agencies over the past several years include hazardous waste compliance, Water Quality Bureau permit inspections, Nuclear

Regulatory Commission inspection for nuclear gauges and the U.S. Bureau of Alcohol, Tobacco, and Firearms inspections for mining explosives. No material notices of violation or non-compliance have been received from any agency as the result of a site inspection.

We have developed closure plans for the Montana Tunnels Mine and currently estimate the present value of the cost of closure, as of December 31, 2003, to total approximately $7.6 million, plus severance costs of approximately $1.5 million. We currently believe that cleanup of this site will commence during 2010.

Montana Tunnels Mine Geology. The Montana Tunnels Mine deposit is hosted in the central part of the Montana Tunnels Mine diatreme, an upward-sloping passage forced through sedimentary rock by volcanic activity. The Montana Tunnels Mine diatreme is a heterolithic breccia, a conglomerate rock with sharp fragments, that is matrix-rich, characterized by a sand-size fragmented matrix of quartz latitic composition surrounding subangular to well-rounded fragments of Cretaceous Elkhorn Mountains Volcanics, Tertiary Lowland Creek Volcanics, and clasts derived from the Cretaceous Butte Quartz Monzonite pluton.

There are two main zones of mineralization in the Montana Tunnels Mine: a central, pipe-like core of contiguous mineralization, and discontinuous zones of mineralization peripheral to the core deposit, termed fringe mineralization. The core of the deposit in plain view is oblong in shape and ranges from about 200 feet to 1000 feet in width, and from 1400 to 2000 feet in length, with a vertical extent of at least 2000 feet. The core zone strikes approximately N30 E and dips steeply (60 degrees to 80 degrees) to the northwest.

Montana Tunnels Mine Drilling And Sampling. As of December 31, 2003, the Montana Tunnels Mine database contains 891 reverse circulation, rotary, core and blasthole drill holes, totaling 466,609 feet, that were drilled from the mid 1970s to the present by numerous mining and exploration companies. There are 48,279 drill sample intervals in the Montana Tunnels Mine database, each with gold, silver, lead, zinc, and calculated gold-equivalent values. The Montana Tunnels Mine drill hole database is summarized in Table 10:

TABLE 10 MONTANA TUNNELS MINE DRILL HOLE DATABASE SUMMARY

DRILL TYPE	NUMBER OF HOLES	FOOTAGE
CORE	95	63,184
REVERSE CIRCULATION	644	351,333
ROTARY	140	51,372
BLASTHOLE	12	720
TOTAL	891	466,609

Gold is analyzed by fire assay methods with a duplicate assay for each sample. Silver, lead, and zinc are analyzed by atomic absorption spectroscopy with a duplicate analysis once every 24 samples and are standard analyzed once every 12 samples. The majority of drill samples are analyzed at our onsite laboratory. Comparison of gold fire assay check samples indicate high sample

variance, though the average grade of the check sample datasets, as a whole, agreed closely. There is good correlation between silver, lead, and zinc

duplicate samples.

The Montana Tunnels Mine was idle for approximately four months in 2002, while we made preparations to begin the removal of waste rock at the mine. Limited production resumed in October 2002, and full production on the K-Pit resumed in April 2003. Since that time, the Montana Tunnels Mine has experienced pit wall problems that have resulted in significant changes to the mine plan, including an accelerated stripping schedule to remove 10 million tons of material that slid off the southwest pit wall. The K-Pit should be completed during the second quarter of 2004. In October 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 will supply about three years of ore. The final designed expansion at this time is the M-Pit, based on a $350/oz gold price optimized pit.

Montana Tunnels Mine Drill Hole Spacing. The Montana Tunnels Mine drill hole spacing is generally within the gold variogram range of 30 feet to 140 feet in the core. The core diatreme contains about 80% of the Montana Tunnels Mine Measured and Indicated Resources. The drill hole spacing in the fringe is generally wider than the variogram range of 50 feet to 170 feet. Measured mineralization is defined by those model blocks within one-half the variogram range from the nearest composite. About 57% of the model blocks above the 0.016 ounces AU EQ/T cutoff grade have the closest composite within one half of the variogram range. Indicated resources are model blocks with the closest composite within the average variogram range, which are about 43% of the model blocks above the 0.016 ounces AU EQ/T cutoff grade. Montana, Inc. considers material beyond the variogram range and within three times the variogram range to be inferred. We use an estimate of three times the variogram range because the core of the diatreme is generally known to almost always be mineralized.

Montana Tunnels Mine Reserves. The reserves reported for the Montana Tunnels Mine deposit conform to the definitions ascribed by the Canadian Institute of Mining, Metallurgy and Petroleum and guidelines adopted by CIM Council on August 20,2000 and the United States Securities Exchange Commission Industry Guide 7 definitions of Proven and Probable Reserves. The Montana Tunnels Mine reserves as of December 31, 2003 are made up of three pit expansions. The first expansion is the material remaining in the current pit expansion ("K22A"), which is scheduled to be mined out during the second quarter of 2004.

The second pit expansion of the Montana Tunnels Mine reserves is the L8B pit expansion, resulting from a redesign of the current pit ramp system and steeper pit slopes below the 5,000 feet elevation. The initial waste stripping from this expansion is nearly completed and is scheduled to supply all of the mill feed material for the next three years, until the M2 Pit can supply the remaining ore.

The third and potentially final pit phase is the M2 Pit. Mining permits have not been received for the M2 expansion; however, we have been in discussions regarding the expansion over the past two years and expect to apply for the necessary permits during the second quarter of 2004. A portion of the material contained in the low-grade stockpile is included in the reserve tabulation. Montana Tunnels Mine reserves as of December 31, 2003 are summarized in Table 11. The reserves were calculated using metal prices of $350/ounce gold, $5.50/ounce silver, $0.45/lb zinc, and $0.30/lb lead.

TABLE 11 MONTANA TUNNELS MINE RESERVES (1)

		RESERVES					CONTAINED MATERI	
PIT PHASE	CLASSIFICATION	TONS 000'S	OZ AU/T	OZ AG/T	% PB	% ZN	GOLD OZ 000'S	SILVER OZ 000'S
K22A	Proven	1,685.8	0.013	0.170	0.187	0.578	21.5	287.3
L8C	Proven	15,691.1	0.016	0.189	0.206	0.554	244.9	2,969.2
M2	Proven*							
Mill Stockpile	Proven	138.0	0.011	0.150	0.200	0.480	1.5	20.7
TOTAL	PROVEN	17,514.8	0.015	0.187	0.204	0.556	267.9	3,277.1
K22A	Probable	24.1	0.018	0.178	0.208	0.642	0.4	4.3
L8C	Probable	1,413.9	0.015	0.259	0.172	0.439	21.3	365.7
M2	Probable*	15,893.7	0.017	0.237	0.171	0.585	263.8	3,766.3
M2	Probable	8,319.8	0.017	0.228	0.168	0.611	139.1	1,897.5
TOTAL	PROBABLE	25,651.4	0.017	0.235	0.170	0.586	424.6	6,033.7
TOTALS	PROVEN & PROBABLE	43,166.2	0.016	0.216	0.184	0.574	692.5	9,310.9