

GLAMIS GOLD LTD  
Form 6-K  
August 09, 2005

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**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 6-K**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16  
of the Securities Exchange Act of 1934**

Current Report for August 2005

**Glamis Gold Ltd.**

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*(Translation of registrant's name into English)*

**5190 Neil Rd., Suite 310, Reno, Nevada 89502**

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*(Address of principal executive offices)*

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-\_\_\_\_\_

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GLAMIS GOLD LTD.  
(Registrant)

Date: August 5, 2005

By: /s/ Cheryl S. Maher

\_\_\_\_\_  
Cheryl S. Maher  
Chief Financial Officer

**GLAMIS GOLD LTD.  
SECOND QUARTER 2005 REPORT**

**Financial Highlights**

(in millions of U.S. dollars, except per share  
and per ounce amounts )

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Gold ounces produced</b>	<b>109,377</b>	48,109	<b>203,098</b>	99,028
<b>Gold ounces sold</b>	<b>112,810</b>	47,037	<b>210,927</b>	99,700
<b>Average revenue realized per gold ounce</b>	\$ <b>430</b>	\$ 394	\$ <b>429</b>	\$ 404
<b>Average market price per gold ounce</b>	\$ <b>427</b>	\$ 393	\$ <b>427</b>	\$ 401
<b>Total cash cost per gold ounce produced</b>	\$ <b>191</b>	\$ 183	\$ <b>190</b>	\$ 194
<b>Total production cost per gold ounce</b>	\$ <b>295</b>	\$ 268	\$ <b>294</b>	\$ 279

**Production Data:**

El Sauzal Mine:

Ore tonnes milled	<b>429,578</b>		<b>732,555</b>	
Waste tonnes mined	<b>1,191,273</b>		<b>1,773,751</b>	
Grade (grams per tonne)	<b>3.473</b>		<b>3.380</b>	
Gold ounces produced	<b>44,502</b>		<b>88,037</b>	
Total cash cost per ounce	\$ <b>151</b>		\$ <b>138</b>	
Total production cost per ounce	\$ <b>267</b>		\$ <b>252</b>	

San Martin Mine:

Ore tonnes processed	<b>1,432,564</b>	1,342,471	<b>2,891,640</b>	2,792,147
Waste tonnes mined	<b>883,619</b>	607,984	<b>2,074,135</b>	1,470,906
Grade (grams per tonne)	<b>0.647</b>	0.891	<b>0.639</b>	0.789
Gold ounces produced	<b>23,755</b>	22,418	<b>45,722</b>	51,344
Total cash cost per ounce	\$ <b>273</b>	\$ 192	\$ <b>268</b>	\$ 182
Total production cost per ounce	\$ <b>379</b>	\$ 289	\$ <b>373</b>	\$ 278

Marigold Mine (66.7%):

Ore tonnes mined	<b>1,115,333</b>	1,892,571	<b>2,649,486</b>	3,057,149
Waste tonnes mined	<b>6,340,946</b>	4,092,732	<b>11,663,416</b>	9,623,281
Grade (grams per tonne)	<b>1.041</b>	0.960	<b>0.858</b>	0.857
Gold ounces produced	<b>41,120</b>	22,188	<b>69,339</b>	39,394
Total cash cost per ounce	\$ <b>187</b>	\$ 160	\$ <b>204</b>	\$ 198
Total production cost per ounce	\$ <b>275</b>	\$ 240	\$ <b>295</b>	\$ 277

Rand Mine (in reclamation):

Gold ounces produced		3,503		8,290
Total cash cost per ounce		\$ 268		\$ 248
Total production cost per ounce		\$ 311		\$ 292

**Financial Data:**

Working capital	\$ <b>29.3</b>	\$ 73.0	\$ <b>29.3</b>	\$ 73.0
Cash provided from operations	\$ <b>22.1</b>	\$ 7.7	\$ <b>38.6</b>	\$ 15.4

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Net earnings	\$	<b>8.2</b>	\$	2.9	\$	<b>10.4</b>	\$	12.0
Basic earnings per share	\$	<b>0.06</b>	\$	0.02	\$	<b>0.08</b>	\$	0.09
Average shares outstanding		<b>131,002,303</b>		130,513,678		<b>130,951,724</b>		130,369,235

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**Glamis Gold Ltd.****Consolidated Balance Sheets**

(Expressed in millions of U.S. dollars, except per share amounts)

	<b>June 30 2005</b> (unaudited)	December 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24.8	\$ 27.0
Accounts and interest receivable	1.8	2.8
Inventories (note 2)	26.0	25.7
Prepaid expenses and other	1.5	1.3
	<b>54.1</b>	56.8
Mineral property, plant and equipment, net	<b>593.3</b>	542.3
Other assets	<b>12.3</b>	14.2
	<b>\$ 659.7</b>	\$ 613.3
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 22.3	\$ 24.8
Site closure and reclamation costs, current	<b>0.8</b>	0.9
Taxes payable	1.7	3.7
	<b>24.8</b>	29.4
Site closure and reclamation costs	<b>8.9</b>	7.6
Long-term debt (note 3)	<b>65.0</b>	30.0
Future income taxes	<b>88.2</b>	86.0
	<b>186.9</b>	153.0
<b>Shareholders equity</b>		
Share capital (note 4):		
Authorized:		
Unlimited (2004 200,000,000) common shares without par value		
5,000,000 preferred shares, Cdn\$10 per share par value, issuable in series		
Issued and fully paid:		
131,018,753 (2004 130,863,953) common shares	<b>474.2</b>	472.7
Contributed surplus	<b>17.1</b>	16.5
Deficit	<b>(18.5)</b>	(28.9)
	<b>472.8</b>	460.3

\$ 659.7 \$ 613.3

See accompanying notes to consolidated financial statements  
Prepared by management without audit  
Approved on behalf of the Board:

/s/ C. Kevin McArthur  
C. Kevin McArthur  
Director

/s/ A. Dan Rovig  
A. Dan Rovig  
Director

**Glamis Gold Ltd.****Consolidated Statements of Operations**

(Expressed in millions of U.S. dollars, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
<b>Revenue</b>	\$ 48.7	\$ 18.6	\$ 90.8	\$ 40.3
<b>Costs and expenses:</b>				
Cost of sales	21.4	8.5	39.2	19.2
Depreciation and depletion	12.5	4.0	23.2	8.4
Exploration	1.4	0.8	2.5	1.9
General and administrative	2.0	1.6	8.1	4.0
Stock-based compensation	1.2		1.8	0.1
Other operating expenses	0.6	0.3	0.9	0.4
	39.1	15.1	75.7	34.0
<b>Earnings from operations</b>	9.6	3.4	15.1	6.3
Interest and other income	0.4	0.1	0.6	8.4
<b>Earnings before income taxes</b>	10.0	3.5	15.7	14.7
Provision for income taxes:				
Current	2.0		3.1	1.2
Future	(0.2)	0.6	2.2	1.5
	1.8	0.6	5.3	2.7
<b>Net earnings</b>	\$ 8.2	\$ 2.9	\$ 10.4	\$ 12.0
Earnings per share:				
Basic	\$ 0.06	\$ 0.02	\$ 0.08	\$ 0.09
Diluted	\$ 0.06	\$ 0.02	\$ 0.08	\$ 0.09
Weighted average common shares outstanding:				
Basic	131,002,303	130,513,678	130,951,724	130,369,235
Diluted	132,278,716	132,104,099	132,266,792	131,948,374

**Consolidated Statements of Deficit**

(Expressed in millions of U.S. dollars)

	Three months ended June		Six months ended June	
	30,	2004	30,	2004
	2005		2005	
	(unaudited)		(unaudited)	



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Deficit, beginning of period	\$ (26.7)	\$ (40.7)	\$ (28.9)	\$ (36.7)
Adjustment for stock-based compensation (note 5)				(13.1)
Net earnings	8.2	2.9	10.4	12.0
Deficit, end of period	\$ (18.5)	\$ (37.8)	\$ (18.5)	\$ (37.8)

See accompanying notes to consolidated financial statements  
Prepared by management without audit

**Glamis Gold Ltd.**  
**Consolidated Statements of Cash Flows**  
(Expressed in millions of U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(unaudited)		(unaudited)	
<b>Cash flows from operating activities</b>				
Net earnings	\$ 8.2	\$ 2.9	\$ 10.4	\$ 12.0
Non-cash items:				
Depreciation and depletion	12.5	4.0	23.2	8.4
Future income taxes	(0.2)	0.6	2.2	1.5
Loss (gain) on sale of properties and investments	(0.2)	0.1	(0.3)	(6.9)
Stock-based compensation	1.2		1.8	0.1
Other	0.6	0.1	1.3	0.3
	22.1	7.7	38.6	15.4
Changes in non-cash operating working capital:				
Accounts and interest receivable	1.0	(1.6)	1.1	(2.3)
Taxes recoverable/payable	(2.7)		(2.1)	
Inventories	0.6	(3.4)	(0.5)	(3.1)
Prepaid expenses and other	0.5	2.5	(0.2)	(0.7)
Accounts payable and accrued liabilities	(3.2)	16.4	(3.1)	19.7
Site closure and reclamation expenditures	(0.8)	(0.5)	(1.3)	(1.1)
<b>Net cash provided by operating activities</b>	<b>17.5</b>	<b>21.1</b>	<b>32.5</b>	<b>27.9</b>
<b>Cash flows from (used in) investing activities</b>				
Purchase of mineral property, plant and equipment, net of disposals	(38.6)	(58.8)	(72.1)	(93.2)
Net proceeds from sale of investments and properties	0.5		0.5	13.3
Other assets	0.7		1.3	
<b>Net cash used in investing activities</b>	<b>(37.4)</b>	<b>(58.8)</b>	<b>(70.3)</b>	<b>(79.9)</b>
<b>Cash flows from financing activities</b>				
Proceeds from long-term debt	20.0		35.0	
Proceeds from issuance of common shares	0.4	1.2	0.6	3.1
<b>Net cash provided by financing activities</b>	<b>20.4</b>	<b>1.2</b>	<b>35.6</b>	<b>3.1</b>
Increase (decrease) in cash and cash equivalents	0.5	(36.5)	(2.2)	(48.9)
Cash and cash equivalents, beginning of period	24.3	113.7	27.0	126.1

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Cash and cash equivalents, end of period	\$	<b>24.8</b>	\$	77.2	\$	<b>24.8</b>	\$	77.2
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Supplemental disclosure of cash flow information:

Cash paid (received) during the period for:

Interest, net of interest amounts paid and capitalized (note 3)	\$	<b>(0.2)</b>	\$	(0.3)	\$	<b>(0.3)</b>	\$	(0.7)
Taxes	\$	<b>4.7</b>			\$	<b>4.8</b>		

Non-cash financing activities:

Shares received on sale of mineral property rights							\$	0.7
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See accompanying notes to consolidated financial statements

Prepared by management without audit

**Glamis Gold Ltd.**

Notes to Unaudited Interim Consolidated Financial Statements  
(tables expressed in millions of U.S. dollars, except per share amounts)

Three months and six months ended June 30, 2005

**1. General**

In the opinion of management, the accompanying unaudited interim consolidated balance sheet and consolidated statements of operations, deficit and cash flows contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly, in all material respects, the financial position of Glamis Gold Ltd. (the Company) as of June 30, 2005 and the results of its operations and its cash flows for the three-month and the six-month periods ended June 30, 2005 and 2004.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related footnotes included in the Company's annual report to shareholders for the year ended December 31, 2004. Certain of the comparative figures have been reclassified to conform to the current period's presentation.

The financial statements are prepared using the same accounting policies and methods of application as those disclosed in note 2 to the Company's consolidated financial statements for the year ended December 31, 2004, except as described in note 6 to these financial statements. These statements have been prepared in accordance with accounting principles generally accepted in Canada which conform, in all material respects, with accounting principles generally accepted in the United States, except as described in note 7 hereof. All amounts are stated in U.S. dollars unless otherwise specified.

**2. Inventories**

	<b>June 30, 2005</b>	December 31, 2004
	<b>(unaudited)</b>	
Finished goods	\$ 1.7	\$ 2.5
Work-in-progress	15.6	17.3
Supplies and spare parts	8.7	5.9
	<b>\$ 26.0</b>	<b>\$ 25.7</b>

**3. Long-term debt**

On June 30, 2004, the Company signed a loan agreement with International Finance Corporation, a division of the World Bank providing for up to \$45.0 million in funding, at a six-month LIBOR plus 2.625%-based interest rate, for development of the Company's Marlin Project in Guatemala. The facility is secured by a pledge of the Company's shares in the related Guatemalan subsidiaries. As at June 30, 2005, there was \$45.0 million outstanding under the facility. The blended interest rate was 5.515% as of June 30, 2005; interest is payable semiannually. Principal repayments are scheduled to begin in January 2007 and will be made semi-annually through July 2009. For the three months ended June 30, 2005, \$0.6 million of interest was capitalized to the Marlin Project (2004 nil); \$1.1 million of interest was capitalized for the six months ended June 30, 2005 (2004 nil).

On March 4, 2005, the Company finalized a \$50.0 million revolving credit facility with the Bank of Nova Scotia. The facility is available for borrowing and repayment at any time during the 3-year period ending March 4, 2008 at a LIBOR-based interest rate. The facility is secured by a pledge of the Company's shares in certain U.S. and Mexican mining subsidiaries. As of June 30, 2005, \$20.0 million was outstanding under this facility. The interest rate was 4.51% as of June 30, 2005; interest is payable quarterly. For the three months and six months ended June 30, 2005 \$0.1 million in interest was capitalized to the Marlin Project.



**4. Share Capital****(a) Shares Outstanding**

	<b>Six months ended June 30, 2005 (unaudited)</b>		<b>Six months ended June 30, 2004 (unaudited)</b>	
	<b>Number of Shares</b>	<b>Amount</b>	Number of shares	Amount
Issued and fully paid:				
Balance at beginning of period	<b>130,863,953</b>	<b>\$ 472.7</b>	130,133,678	\$ 465.4
Cumulative adjustment for change in accounting for stock-based compensation (note 6)				1.4
Issued during the period:				
Pursuant to the terms of Directors and Employees stock option plan	<b>97,800</b>	<b>0.8</b>	491,000	3.9
Pursuant to the terms of Directors and Employees restricted stock plan	<b>57,000</b>	<b>0.7</b>		
Balance at end of period	<b>131,018,753</b>	<b>\$ 474.2</b>	130,624,678	\$ 470.7
Directors and employees stock options outstanding, end of period	<b>3,996,200</b>		3,624,700	
Directors and employees stock options exercisable, end of period	<b>3,503,534</b>		3,617,200	

The Company had 200,000,000 shares of common stock without par value authorized as of December 31, 2004. At an extraordinary shareholders meeting on February 9, 2005, the restriction on the number of shares authorized was removed allowing the Company to issue an unlimited number of common shares without par value. Each common share is entitled to one vote.

**(b) Stock-based compensation**

The Company granted 340,000 options during the three months ended June 30, 2005 (2004 - none). The Company used the Black-Scholes option pricing model to determine the fair value of options granted during the three months ended June 30, 2005 with the following weighted average assumptions: risk-free interest rate 2.88%, expected volatility 32.5% and expected life of the option 2.32 years. The Company also granted 378,000 options during the three months ended March 31, 2005 (2004 - 15,000 options). The Company used the Black-Scholes option pricing model to determine the fair value of options granted during the three months ended March 31, 2005 and 2004 with the following weighted average assumptions: risk-free interest rate 2.95% (2004 - 2.55%), expected volatility 35% (2004 - 55%), and expected life of the option 1.5 years (2004 - 2.5 years). The weighted average fair value of options granted in the three months ended June 30, 2005 was \$1.1 million (2004 - nil) and for the six months ended June 30, 2005 was \$2.3 million (2004 - \$0.1 million).

During the three months ended March 31, 2005, the Company also issued 57,000 common shares as restricted stock, one third of which vested and the balance of which will vest over the next two years. The fair value of the common shares issued as restricted stock was \$0.7 million of which \$0.4 million has been deferred and will be charged to operations over the vesting period. There was no restricted stock issued in the three months ended June 30, 2005, or during the six months ended June 30, 2004.

The Company also has a stock-based management incentive plan that allows it to grant rights for a holder to receive the appreciation in the value of the stock-based right over the stated base price in shares of stock ( SARs ). During the three months ended June 30, 2005 the Company granted 843,000 SARs, of which 281,000 are vested. As at March 31, 2005 and December 31, 2004, there were no SARs outstanding. At June 30, 2005, the Company accrued \$0.8 million for the excess of the Company s share price at June 30, 2005 over the stated base price of vested SARs. Total expense incurred by the Company in 2005 upon exercise of SARs was nil (2004 nil).

**5. Segment Reporting**

As at June 30, 2005 and 2004 and for the three and six months ended June 30, 2005 and 2004:

<b>Three months ended June 30, 2005</b>	El Sauzal	San Martin	Marigold	Rand	Marlin	Other	Total
Revenue	\$ 19.7	\$ 9.9	\$ 18.6	\$ 0.5	\$	\$	\$ 48.7
Cost of sales	6.8	6.3	8.1	0.2			21.4
Depreciation and depletion	5.2	2.4	3.9	0.1		0.9	12.5
Other operating expenses	0.4	0.1	0.1		0.1	4.5	5.2
Earnings (loss) from operations	7.3	1.1	6.5	0.2	(0.1)	(5.4)	9.6
Other income (loss)	0.2	(0.2)	0.1	0.1		0.2	0.4
Earnings (loss) before taxes	\$ 7.5	\$ 0.9	\$ 6.6	\$ 0.3	\$ (0.1)	\$ (5.2)	\$ 10.0
Cash from operating activities <sup>(1)</sup>	\$ 12.6	\$ 0.6	\$ 10.4	\$ 0.2	\$ (0.1)	\$ (1.6)	\$ 22.1
Capital expenditures	\$ 1.2	\$ 0.9	\$ 7.6	\$	\$ 29.1	\$	\$ 38.8

<sup>(1)</sup> Before changes in non-cash working capital and site closure and reclamation expenditures.

<b>Three months ended June 30, 2004</b>	El Sauzal	San Martin	Marigold	Rand	Marlin	Other	Total
Revenue	\$	\$ 8.5	\$ 8.7	\$ 1.4	\$	\$	\$ 18.6
Cost of sales		4.2	3.4	0.9			8.5
Depreciation and depletion		2.0	1.8	0.2			4.0
Other operating expenses	0.1	0.1	0.3		0.1	2.1	2.7
Earnings (loss) from operations	(0.1)	2.2	3.2	0.3	(0.1)	(2.1)	3.4
Other income (loss)		(0.1)	0.1			0.1	0.1
Earnings (loss) before taxes	\$ (0.1)	\$ 2.1	\$ 3.3	\$ 0.3	\$ (0.1)	\$ (2.0)	\$ 3.5
Cash from operating activities <sup>(1)</sup>	\$ (0.1)	\$ 4.2	\$ 5.1	\$ 0.6	\$ (0.1)	\$ (2.0)	\$ 7.7
Capital expenditures	\$ 29.2	\$ 0.9	\$ 11.2	\$	\$ 17.3	\$ 0.1	\$ 58.7

<sup>(1)</sup> Before changes in non-cash working capital



and site closure  
and reclamation  
expenditures.

<b>Six months ended June 30, 2005</b>	El Sauzal	San Martin	Marigold	Rand	Marlin	Other	Total
Revenue	\$ 39.5	\$ 19.5	\$ 30.7	\$ 1.1	\$	\$	\$ 90.8
Cost of sales	12.3	12.1	14.3	0.5			39.2
Depreciation and depletion	10.2	4.7	6.6	0.2		1.5	23.2
Other operating expenses	0.6	0.1	0.2	0.1	0.1	12.2	13.3
Earnings (loss) from operations	16.4	2.6	9.6	0.3	(0.1)	(13.7)	15.1
Other income (loss)	0.2	(0.3)	0.1	0.2		0.4	0.6
Earnings (loss) before taxes	\$ 16.6	\$ 2.3	\$ 9.7	\$ 0.5	\$ (0.1)	\$ (13.3)	\$ 15.7
Cash from operating activities <sup>(1)</sup>	\$ 26.7	\$ 3.5	\$ 16.2	\$ 0.6	\$ (0.1)	\$ (8.3)	\$ 38.6
Capital expenditures	\$ 2.2	\$ 1.6	\$ 10.3	\$	\$ 58.2	\$	\$ 72.3
Total assets	\$ 230.6	\$ 44.7	\$ 78.6	\$ 1.7	\$ 287.5	\$ 16.6	\$ 659.7

<sup>(1)</sup> Before changes  
in non-cash  
working capital  
and site closure  
and reclamation  
expenditures.

<b>Six months ended June 30, 2004</b>	El Sauzal	San Martin	Marigold	Rand	Marlin	Other	Total
Revenue	\$	\$ 21.1	\$ 15.7	\$ 3.5	\$	\$	\$ 40.3
Cost of sales		9.5	7.6	2.1			19.2
Depreciation and depletion		4.9	3.1	0.4			8.4
Other operating expenses	0.1	0.2	0.7	0.1	0.1	5.2	6.4
Earnings (loss) from operations	(0.1)	6.5	4.3	0.9	(0.1)	(5.2)	6.3
Other income (loss)		(0.2)	0.1			8.5	8.4
Earnings (loss) before taxes	\$ (0.1)	\$ 6.3	\$ 4.4	\$ 0.9	\$ (0.1)	\$ 3.3	\$ 14.7
Cash from operating activities <sup>(1)</sup>	\$ (0.1)	\$ 11.3	\$ 7.6	\$ 1.4	\$ (0.1)	\$ (4.7)	\$ 15.4
Capital expenditures	\$ 51.4	\$ 2.7	\$ 15.1	\$	\$ 23.9	\$ 0.1	\$ 93.2

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Total assets	\$ 207.6	\$ 54.1	\$ 70.2	\$ 3.7	\$ 167.5	\$ 69.4	\$ 572.5
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(1) Before changes  
in non-cash  
working capital  
and site closure  
and reclamation  
expenditures.

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## 6. Change in Accounting Policies

Effective January 1, 2004, the Company retroactively adopted the amended Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* ( HB 3870 ). HB 3870 requires the use of the fair-value method to calculate all stock-based compensation associated with granting stock options to employees and directors, and the inclusion of that expense in the statement of operations. Prior to January 1, 2004, the Company disclosed the effects of the fair-value method in the notes to the financial statements and did not recognize stock-based compensation relating to stock options granted to employees and directors in the statement of operations. Under the revised accounting policy, the Company measures stock-based compensation on the date of the grant and recognizes this cost over the vesting period of the options in results from operations. The cumulative effect of this change in accounting for stock-based compensation of \$13.1 million, determined as of January 1, 2004, for stock options granted on or after January 1, 2002, is reported separately in the consolidated statement of deficit and as an adjustment to contributed surplus. The fair value of options granted on or after January 1, 2002 and exercised prior to January 1, 2004 of \$1.4 million has been recorded as an adjustment to share capital, with an offsetting reduction to contributed surplus as at January 1, 2004.

Effective January 1, 2005, the Company adopted the new CICA Accounting Guideline 15 *Consolidation of Variable Interest Entities* ( AcG-15 ). The new guidance establishes when a company should consolidate a variable interest entity and requires a variable interest entity to be consolidated if a company is at risk of absorbing the variable interest entity's expected losses, or is entitled to receive a majority of the variable interest entity's residual returns, or both. The adoption of AcG-15 did not result in any changes to the Company's financial statements.

## 7. Differences Between Canadian and United States Generally Accepted Accounting Principles

Accounting in these unaudited interim consolidated financial statements under Canadian and U.S. generally accepted accounting principles is substantially the same, except as noted below.

United States accounting principles require the use of the asset and liability method of accounting for income taxes, which is comparable to the Canadian standard adopted in 2000. As previously disclosed, the \$4.5 million charge recorded to opening deficit on adoption of the Canadian standard would have been recorded as an increase to the San Martin property at the time of the business acquisition under U.S. accounting principles. As a result, under United States accounting principles, at June 30, 2005, mineral property, plant and equipment for the San Martin Mine would be increased by \$1.8 million (December 31, 2004 \$2.0 million) over the amount presented under Canadian accounting principles, with a corresponding reduction in deficit. The resulting increase in depreciation and depletion charges as these costs are amortized would have reduced reported earnings for the three months ended June 30, 2005 by \$0.1 million (2004 \$0.1 million) and by \$0.2 million for the six months ended June 30, 2005 (2004 \$0.3 million). The amended Canadian accounting standard for stock-based compensation is substantially the same as the United States accounting principles in its use of the fair-value method, however the transition provision under United States standards allow the effects of the fair-value method to be accounted for prospectively. As a result, the adjustments to deficit, share capital and contributed surplus as at January 1, 2004, disclosed in note 5, would not be made under United States accounting principles.

Statement of Financial Accounting Standards No. 115, *Accounting for Investments in Debt and Equity Securities*, requires that portfolio investments that have readily determinable fair values and are held principally for sale in the near term be presented at fair value with their unrealized holding gains and losses included in earnings. Investments that have readily determinable fair values and, while not held principally for sale in the near term, are available-for-sale, must also be presented at fair value with their holding gains and losses reported in a separate component of shareholders' equity until realized. Both of these types of investments are presented on a cost basis under Canadian accounting principles. Under United States accounting principles, other assets and unrealized holding gains in shareholders' equity at June 30, 2005 would each be increased by \$0.2 million (December 31, 2004 an increase of \$0.2 million), based on the quoted market price of the Company's share investments, which would be included in other comprehensive income for

the three months and six months ended June 30, 2005. At June 30, 2005, the quoted market value of the shares of the investments not held in escrow was \$0.5 million (December 31, 2004 \$0.9 million).

Generally accepted accounting principles in the United States require that the Company classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings (deficit) and contributed surplus in the equity section of the balance sheet. Under United States accounting principles, other comprehensive income for the three months ended June 30, 2005, which consists of the changes in the unrealized holding gains on investments held, would be a loss of \$0.2 million (2004 loss of \$0.7 million) and for the six months ended June 30, 2005 would be nil (2004 a loss of \$0.3 million).

A reconciliation of net earnings for the period as shown in these consolidated financial statements to net earnings for the period in accordance with United States accounting principles and to comprehensive income for the period using United States accounting principles, is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Net earnings in these consolidated financial statements	\$ 8.2	\$ 2.9	\$ 10.4	\$ 12.0
Adjustment for differences in accounting for income taxes	(0.1)	(0.1)	(0.2)	(0.3)
Net earnings using United States accounting principles	8.1	2.8	10.2	11.7
Other comprehensive income, net of tax:				
Change in unrealized holding gains on investments	(0.2)	(0.7)		(0.3)
Comprehensive earnings using United States accounting principles	\$ 7.9	\$ 2.1	\$ 10.2	\$ 11.4
Basic earnings per share	\$ 0.06	\$ 0.02	\$ 0.08	\$ 0.09
Diluted earnings per share	\$ 0.06	\$ 0.02	\$ 0.08	\$ 0.09

At its March 2005 meeting, the Emerging Issues Task Force ( EITF ) of the Financial Accounting Standards Board ( FASB ) issued a consensus opinion, subsequently ratified by FASB, dealing with the accounting for stripping costs (the removal of overburden) incurred during production. The consensus is effective for the first reporting period in fiscal years beginning after December 15, 2005, with early application permitted. The EITF addressed the issue of stripping costs incurred in pre-production (capitalize and amortize over the mine life) and stripping costs incurred during the production phase (to be considered a variable cost and included in the cost of inventory produced during the period).

The Marigold Mine would be affected by this change. At June 30, 2005, the Company was assessing the impact of this new statement on future financial reporting.

## **SECOND QUARTER 2005 INTERIM MANAGEMENT'S DISCUSSION AND ANALYSIS (AS OF AUGUST 5, 2005)**

This management's discussion and analysis of the Company's operations for the three months and six months ended June 30, 2005 and 2004 is dated August 5, 2005 and should be read in conjunction with, and is qualified by, the consolidated financial statements and notes thereto (the financial statements). This financial information, which is expressed in United States dollars unless otherwise stated, was prepared in accordance with accounting principles generally accepted in Canada. Reference should be made to Note 7 of the notes to the consolidated financial statements for a reconciliation between Canadian and U.S. generally accepted accounting principles. Additional information, including the Company's Annual Information Form (AIF) can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Form 40-F filed in the United States on EDGAR at [www.sec.gov](http://www.sec.gov).

### **SUMMARY**

The Company reported earnings for the second quarter of 2005 of \$8.2 million, or \$0.06 per share. In the second quarter of 2004 earnings were \$2.9 million, or \$0.02 per share. Earnings for the six months ended June 30, 2005 were \$10.4 million (\$0.08 per share), after recording a charge of \$4.0 million (\$0.03 per share) related to the tender offer for Goldcorp Inc. in the first quarter of 2005. Earnings for the six months ended June 30, 2004 were \$12.0 million (\$0.09 per share) which included \$7.0 million (\$0.05 per share), net of tax, from the final settlement on the sale of the Cerro San Pedro property and royalty and the sale of the Company's 50% interest in the Metates (Mexico) property. At the operating mines, production totaled 109,377 ounces of gold in the second quarter of 2005, compared to 48,109 ounces produced during the second quarter of 2004. The difference was not only the production of 44,502 ounces of gold from El Sauzal, (which was not in operation in the second quarter of 2004), but also the dramatic increase in the ounces produced at Marigold (41,120 ounces of gold for the Company's account in the second quarter of 2005, compared to 22,188 ounces of gold produced in the second quarter of 2004). The San Martin mine had a very solid second quarter this year with 23,755 ounces of gold produced. While the Company continues to expect production of 400,000 ounces of gold for the 2005 year, the second quarter production exceeded expectations. The third quarter production is expected to decline somewhat as Marigold spends significantly more time on stripping overburden in the Basalt pit, and El Sauzal mines an area of lower-grade ore. The Company's average total cash cost per ounce of gold was \$191 during the second quarter of 2005 compared to \$183 in the comparable period in 2004. Significantly higher oil prices affected not only direct fuel costs but the cost of derivative products as well, such as power generation. Maintenance expenses and downtime at both Marigold and El Sauzal also contributed to the increased cash cost per ounce. The Company continued to realize higher gold prices during 2005; \$430 per ounce of gold sold during the second quarter of 2005 compared to \$394 per ounce of gold sold in the second quarter of 2004. Exploration expenditures were \$3.4 million during the second quarter of 2005, an increase over the \$2.8 million expended in the second quarter 2004. General and administrative expense was \$2.0 million in the three months ended June 30, 2005, slightly higher than the \$1.6 million in the comparable period in 2004. Stock-based compensation was \$1.2 million during the second quarter of 2005; there was no stock-based compensation in the second quarter of 2004. Capital expenditures totaled \$38.8 million for the second quarter of 2005; year to date, the Company has spent \$72.3 million on construction and development. The Marlin Project in Guatemala continues to be on track for a fourth quarter 2005 start-up.

### **RESULTS OF OPERATIONS**

#### **Gold Production and Costs Per Ounce**

As noted above, all of the mines had a good production quarter. Shown below are the 3-month and 6-month production statistics for the mines.

Mine	Three months ending June 30, 2005			Three months ending June 30, 2004		
	Gold ounces	Cash cost per ounce	Total cost per ounce	Gold ounces	Cash cost per ounce	Total cost per ounce
El Sauzal	44,502	\$ 151	\$ 267			
Marigold <sup>(1)</sup>	41,120	\$ 187	\$ 275	22,188	\$ 160	\$ 240
San Martin	23,755	\$ 273	\$ 379	22,418	\$ 192	\$ 289
Rand <sup>(2)</sup>				3,503	\$ 268	\$ 311
Total/average	109,377	\$ 191	\$ 295	48,109	\$ 183	\$ 268

Mine	Six months ending June 30, 2005			Six months ending June 30, 2004		
	Gold ounces	Cash cost per ounce	Total cost per ounce	Gold ounces	Cash cost per ounce	Total cost per ounce
El Sauzal	88,037	\$ 138	\$ 252			
Marigold <sup>(1)</sup>	69,339	\$ 204	\$ 295	39,394	\$ 198	\$ 277
San Martin	45,722	\$ 268	\$ 373	51,344	\$ 182	\$ 278
Rand <sup>(2)</sup>				8,290	\$ 248	\$ 292
Total/average	203,098	\$ 190	\$ 294	99,028	\$ 194	\$ 279

Note: Cash cost and total costs per ounce are non-GAAP financial measures and are discussed further under Costs of Production .

(1) This represents the Company's 66.67% share of Marigold.

(2) Rand is currently rinsing its leach pad and the small amount of gold recovered is no longer being reported as production.

#### OPERATIONS REVIEW

El Sauzal Project, Chihuahua, Mexico

El Sauzal had another strong quarter producing 44,502 ounces of gold during the three months ended June 30, 2005. Cash costs of production rose to \$151 as higher seasonal power charges began on May 16 and general and administrative costs were higher than expected. Mining of lower-grade ore increased the tonnage milled also leading to higher costs. The Company continues to expect El Sauzal to produce approximately 170,000 ounces of gold during 2005.

**San Martin Mine, Honduras**

The San Martin Mine produced 23,755 ounces of gold during the three months ended June 30, 2005 at a total cash cost of production of \$273 per ounce of gold. The second quarter 2004 production was 22,418 ounces of gold, but cash costs were \$192 per ounce of gold. The mine continues to meet expectations on budget and costs, with the effects of the lower-grade and lower-recovery Palo Alto ore being mined in 2005 accounting for much of the increase in costs, combined with the negative effects of high fuel costs at a mine which is totally diesel-generator-powered. The Company continues to expect San Martin to produce approximately 85,000 ounces of gold during 2005.

**Marigold Mine, Nevada**

The 66.7%-owned Marigold Mine had a very strong production quarter during the three months ended June 30, 2005, producing 41,120 ounces of gold for the Company's account at a per-ounce cash cost of gold production of \$187. This compares to 22,188 ounces of gold produced during the second quarter of 2004 at a cash cost of \$160 per ounce. The work-in-process inventory on the leach pad was drawn down by over 12,800 ounces of gold (Company's share) during the second quarter of 2005, which added to production, but higher period costs increased the total cash cost per ounce of production. On a per-ounce basis, unplanned maintenance costs of \$1.0 million and fuel prices continued to offset the benefits of the increased production. Although Marigold has dramatically increased production quarter-on-quarter this year, the mine is entering a quarter of intense overburden stripping which is expected to cause production to slow during the third quarter. The Company continues to expect the mine to produce approximately 135,000 ounces of gold for the Company's account during 2005.

## **PROJECTS**

### **Marlin Project, Western Guatemala**

At the end of July, several areas of the Marlin Project had finished the construction phase and were being readied for testing and commissioning. The power line and sub-station work is complete and is awaiting sign-off by the government. Emergency generator power was successfully tested and full back-up generators are expected to be on site in August. Substantial work was completed on both the process facility and the tailings facility, although heavy rains slowed progress at both. Underground mine and open pit development continues. Evaluation of the remaining projected expenditures indicates that additional power, administrative and surface development costs may increase the originally projected construction cost of \$140.0 million by an estimated \$2.0 million. The Project continues to be on-track for commercial production in the fourth quarter 2005.

### **Imperial Project, California**

During 2003, legislative and administrative actions were taken by the State of California to require that any new open pit metallic mines be completely back-filled at the completion of mining. The Company believes that these actions were taken directly to attempt to delay or stop the Company's Imperial Project, as a requirement to back-fill renders the project uneconomic. Consequently, the Company has filed a Notice of Arbitration against the United States pursuant to the North American Free Trade Agreement. The notice alleges that the Company's property rights in the Imperial Project in California have been unlawfully taken by various actions of the United States and the State of California, for which it is entitled to compensation. The Company is seeking recovery of the value of the Imperial Project, pre- and post-award interest and various costs incurred by the Company. A three-person arbitration panel has been selected, and the panel has recently issued a scheduling order which contemplates the claim being heard in July 2006. The Company cannot predict how long it may take to complete this legal process or whether it will be successful in its action.

## **EXPLORATION**

The Company expended \$3.4 million on exploration during the second quarter of 2005 of which \$1.4 million was expensed and \$2.0 million capitalized. Exploration expenditures for the six month period ended June 30, 2005 were \$5.1 million of which \$2.5 million was expensed and \$2.6 million was capitalized. Exploration in the second quarter of 2005 was primarily at two Guatemala projects (Marlin and Cerro Blanco \$1.8 million) and is expected to increase throughout the remainder of 2005. Additional work was performed at the El Sauzal Mine and elsewhere in Mexico (\$0.5 million). The Marigold Mine spent \$1.0 million, most of which was capitalized development drilling, while the Company's share of the Dee exploration venture was \$0.1 million. Additional work is planned on all these projects through the balance of 2005, with increasing expenditures on the Cerro Blanco Project.

## **RECLAMATION ACTIVITIES**

### **Rand Mine, California**

The Rand Mine continues to recover a very small amount of gold from the leach pad as site closure and reclamation proceeds according to plan. The Company continues to expect Rand to substantially complete the required site closure and reclamation over the nine months.

### **Dee Mine, Nevada**

The Company incurred additional charges of \$0.4 million in the second quarter of 2005 as the final reclamation and closure of the Dee Mine is taking substantially longer to complete than originally expected. The extremely wet winter continued to hamper completion of the earthwork, and repairs to the drainage facilities caused by the high winter runoff were necessary. During the second quarter of 2005 a contractor was hired to complete the remaining reclamation work and additional funds were accrued for these costs. The Company believes that its final reclamation should be completed by the end of 2005, with on-going monitoring requirements thereafter.

## **FINANCIAL REVIEW**

### **Revenues**

Ounces of gold sold increased to 112,810 in the second quarter of 2005 from 47,037 ounces of gold sold during the second quarter of 2004. Revenues increased accordingly to \$48.7 million from \$18.6 million on the doubling of production as well as a 9% increase in the realized gold price. Gold sales for the six months ended June 30, 2005 were 210,927 ounces of gold compared to 99,700 ounces sold in the first six





months of 2004. Revenues of \$90.8 million were realized in the first two quarters of 2005 compared to \$40.3 million in the same period in 2004. Realized revenue was \$430 per ounce of gold for the second quarter 2005 and \$429 per ounce of gold for the first six months. Realized prices of gold were \$394 per ounce for the second quarter of 2004 and \$404 for the six months ended June 30, 2004. The London p.m. gold price averaged \$427 per ounce of gold during the three months ended June 30, 2005 compared to \$393 during the same period in 2004, and \$427 compared to \$401 for the six month periods.

### Cost of Production

The Company's total cash cost of production includes mining, processing, direct mine overhead costs and royalties, but excludes selling, general and administrative costs at the corporate level. Total production costs include depreciation and depletion and amortization of site closure and reclamation accruals but exclude future income tax effects. There is a difference between cost of sales and cost of production relating to the difference in the cost of the ounces sold out of inventory during the year.

Cash costs of production should not be considered as an alternative to operating profit or net profit attributable to shareholders, or as an alternative to other Canadian or U.S. generally accepted accounting principle measures and may not be comparable to other similarly titled measures of other companies. However, the Company believes that cash costs of production per ounce of gold, by mine, is a useful indicator to investors and management of a mine's performance as it provides: (i) a measure of the mine's cash margin per ounce, by comparison of the cash operating costs per ounce by mine to the price of gold; (ii) the trend in costs as the mine matures; and (iii) an internal benchmark of performance to allow for comparison against other mines.

The difference between cost of sales as presented in the consolidated statements of operations and cash costs of production for the Company is due to the cost of any incremental ounces put into or sold out of finished goods inventory compared to those ounces actually produced during the year. During the first six months of 2005, approximately 3,000 ounces of gold produced by El Sauzal in the fourth quarter of 2004 were sold, decreasing the average cost per ounce of gold sold during the first six months of 2005 compared to the average cost per ounce of gold produced. The table below reconciles total cash costs per ounce of production and total costs per ounce of production based on the Gold Institute Production Cost Standard to cost per ounce sold per the financial statements.

Non-GAAP Financial Measure:

### Reconciliation of Production Costs to Cost of Sales

(dollar amounts in millions of U.S. dollars, unless indicated)	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
Total ounces sold	<b>112,810</b>	47,037	<b>210,927</b>	99,700
Total ounces produced	<b>109,377</b>	48,109	<b>203,098</b>	99,028
Total cost of sales per the financial statements	\$ <b>21.4</b>	\$ 8.5	\$ <b>39.2</b>	\$ 19.2
Adjustments for revenue recognition (difference in cost of ounces sold out of inventory)	<b>(0.5)</b>	0.3	<b>(0.7)</b>	0.0
Total cash cost of production per Gold Institute Production Cost Standard	\$ <b>20.9</b>	\$ 8.8	\$ <b>38.5</b>	\$ 19.2
Total cash cost per ounce of gold sold	\$ <b>190</b>	\$ 181	\$ <b>186</b>	\$ 193
Total cash cost per ounce of gold produced per Gold Institute Production Cost Standard	\$ <b>191</b>	\$ 183	\$ <b>190</b>	\$ 194

Depreciation, depletion and amortization per the financial statements	\$ 12.5	\$ 4.0	\$ 23.2	\$ 8.4
Net adjustments for cost of ounces produced but not sold, non-production-related depreciation and future income tax effects	(1.2)	0.1	(2.0)	0.0
Total cost of production per Gold Institute Production Cost Standard	\$ 32.2	\$ 12.9	\$ 59.7	\$ 27.6
Total cost of production per ounce of gold produced per Gold Institute Production Cost Standard	\$ 295	\$ 268	\$ 294	\$ 279

Depreciation and depletion charges were \$12.5 million for the three months ending June 30, 2005 compared to \$4.0 million for the comparable period in 2004. For the six month periods ended June 30, depreciation and depletion charges were \$23.2 million during 2005 compared to \$8.4 million during 2004. Over 60% of the depreciation and depletion charges were calculated on a unit-of-production basis and thus, as production and sales increased, these charges increased proportionally. The other significant difference was the inclusion of charges from the El Sauzal mine that was not yet in production in the second quarter of 2004. These charges included the amortization of the costs allocated to El Sauzal at the time of the Company's acquisition of Francisco Gold Corp. With the inclusion of El Sauzal production, the Company's year to date depreciation and depletion charges were approximately \$104 per ounce of gold compared to 2004's average of \$85 per ounce of gold.

#### **Other Income and Expenses**

The Company expensed exploration expenditures of \$1.4 million during the three months ended June 30, 2005, of which \$0.8 million was expensed in Guatemala, \$0.2 million in the United States and \$0.4 million in Mexico. Exploration expense in the second quarter of 2004 was \$0.8 million. During the first six months of 2005, the Company expensed \$2.5 million on exploration compared to \$1.9 million during the same period in 2004. Exploration activities in Mexico and expenditures on the Cerro Blanco Project in Guatemala account for the difference. General and administrative expense was \$2.0 million for the three months ended June 30, 2005, as compared to the \$1.6 million expended in the same period in 2004. Staff increases, employment-related expenses and business development activities accounted for the difference. General and administrative expense was \$8.1 million for the six months ended June 30, 2005, as compared to \$4.0 million expended in the same period in 2004. The most significant difference between the six-month periods was the \$4.0 million charge incurred in the first quarter of 2005 for expenses incurred during the tender offer for Goldcorp Inc. Stock-based compensation included non-cash charges of \$1.2 million during the three month period ended June 30, 2005 (2004 - nil) and \$1.8 million for the six months ended June 30, 2005 (2004 - \$0.1 million). Other operating expenses in the second quarter of 2005 included non-cash charges of \$0.6 million in accretion expense and other site closure accruals (2004 - \$0.3 million). For the six months ended June 30, 2005 these expenses totaled \$0.9 million (2004 - \$0.4 million). Interest and other income increased to \$0.4 million during the three months ended June 30, 2005. This included interest income of \$0.2 million, other income of \$0.3 million, and a foreign exchange loss of \$0.1 million. Interest and other income was \$0.1 million in the three months ended June 30, 2004 comprised of interest income of \$0.3 million offset by a foreign exchange loss of \$0.2 million. Interest and other income for the six months ended June 30, 2005 was \$0.6 million. This was made up of interest income of \$0.3 million, other income of \$0.5 million, and a foreign exchange loss of \$0.2 million. Interest and other income was \$8.4 million in the six months ended June 30, 2004. During the first six months of 2004, the Company recorded income of \$7.3 million relating to the final payments due on the sale of the Cerro San Pedro Project to Metallica Resources Inc. The Company also sold its 50% interest in the Metates Project in Mexico to American Gold Capital Corporation ( American Gold ) and received common shares of American Gold. The Company valued these shares at \$0.7 million, all of which was recorded as income. In the second quarter of 2005, current tax expense was \$2.0 million for cash taxes payable related primarily to the San Martin operation (2004 - nil). Future income tax benefit was \$0.2 million during the second quarter of 2005 compared to \$0.6 million of expense during the second quarter of 2004. For the six months ended June 30, 2005, cash tax expense was \$3.1 million. Future income tax expense of \$2.2 million for the six-month period ended June 30, 2005 related primarily to tax-effecting the earnings at the El Sauzal Mine. In the comparable period of 2004, future income tax expense was \$1.5 million relating to the San Martin operation.

**SUMMARY OF QUARTERLY RESULTS**

The Company's quarterly information for the last eight quarters is shown below:

(amounts in millions of US\$ except per ounce and per share amounts)	3rd Q 2003	4th Q 2003	1st Q 2004	2nd Q 2004	3rd Q 2004	4th Q 2004	1st Q 2005	2nd Q 2005
Average realized price/oz. of gold	\$ 371	\$ 402	\$ 412	\$ 394	\$ 406	\$ 438	\$ 429	\$ 430
Ounces of gold sold	51,110	56,064	52,663	47,036	51,631	76,369	98,117	112,810
Revenues <sup>(1)</sup>	\$ 19.0	\$ 22.5	\$ 21.7	\$ 18.6	\$ 21.0	\$ 33.4	\$ 42.1	\$ 48.7
Net earnings <sup>(2)</sup>	\$ 3.4	\$ 8.6 <sup>(3)</sup>	\$ 9.1 <sup>(3)</sup>	\$ 2.9	\$ 2.8	\$ 6.1	\$ 2.2 <sup>(4)</sup>	\$ 8.2
Basic earnings per share	\$ 0.02	\$ 0.07	\$ 0.07	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.02	\$ 0.06
Diluted earnings per share	\$ 0.02	\$ 0.07	\$ 0.07	\$ 0.02	\$ 0.02	\$ 0.05	\$ 0.02	\$ 0.06

(1) Net sales and total revenues are the same.

(2) Income from continuing operations and net earnings are the same.

(3) Includes income from the sale of the Cerro San Pedro and Metates properties of \$1.5 million in the 4th quarter of 2003 and \$6.9 million in the 1st quarter of 2004.

(4) Includes \$4.0 million of expenses incurred during the tender offer for Goldcorp Inc.

**LIQUIDITY AND CAPITAL RESOURCES****Working Capital and Cash Flow**

The Company had working capital of \$29.3 million at June 30, 2005, compared to \$27.4 million at December 31, 2004. The Company had cash flow from operations before working capital adjustments and reclamation expenditures of \$22.1 million during the second quarter of 2005, compared to \$7.7 million generated in the second quarter of 2004.

The Company's mining operations provided \$23.8 million in cash during the second quarter of 2005 compared to \$9.8 million during the second quarter of 2004 (revenues, less cost of sales, less cash reclamation expenditures). The major differences were a 140% increase in ounces of gold sold that accounted for \$14.0 million of the difference; a 9% increase in the realized price of gold accounted for a \$4.1 million increase both of which were offset by a \$1.0 million decrease attributable to the increased cash cost per ounce (cash cost per ounce of gold sold was \$190 in the second quarter of 2005 versus \$181 during the first quarter of 2004). Cash flow from operations before working capital adjustments and reclamation was \$38.6 million for the six months ended June 30, 2005 compared to \$15.4 million during the period ended June 30, 2004. In addition, the Company received \$13.25 million in cash received from the sale of the royalty on the Cerro San Pedro project and shares valued by the Company at \$0.7 million in exchange for its Metates property interest. The substantial increase in production and sales in first six months of 2005 compared to the same period in 2004 drove the increase in cash flow along with a 6% realized gold price increase.

Capital expenditures totaled \$38.8 million for the second quarter of 2005, and \$72.3 million year to date. This compared to \$58.7 million in the second quarter of 2004 and \$93.2 million for the six months ended June 30, 2004. Capital expenditures this year were primarily for the Marlin Project construction. During 2004, both El Sauzal and Marlin were under construction. Expenditures in the quarter ended June 30, 2005 at Marlin totaled \$29.1 million and included \$12.7 million in expenditures on the process facilities, \$2.2 million on the tailings facility, \$1.8 million on mine equipment, \$2.6 million on surface development, \$1.2 million on underground development and \$8.3 million on other development and support activities, including \$0.6 million of capitalized interest. Marigold Mine expenditures were \$4.5 million on deferred stripping, \$1.5 million on leach pad construction and process facilities, \$0.7 million for equipment and \$0.9 million for mine development for a total of \$7.6 million. The San Martin Mine spent \$0.9 million for leach pad construction. At El Sauzal, \$1.2 million was capitalized: \$0.5 million at the process plant, \$0.6 million on equipment and \$0.1 million on infrastructure improvements. Capital expenditures of \$72.3 million to date in 2005 were financed from the Company's operating cash flow and working capital and an additional \$15.0 million drawn on the International Finance Corporation debt facility for the Marlin Project, and \$20.0 million from the Company's revolving credit facility. The Company expects that all remaining capital expenditures in 2005 will be financed from the Company's cash flow and working capital and available credit facility (see below).

The Company received \$0.4 million from the exercise of stock options in the three months ended June 30, 2005 compared to \$1.2 million in the three months ended June 30, 2004. \$0.6 million was received from exercise of stock options during the first six months of 2005 compared to \$3.1 million during the same period in 2004.

Long-term liabilities increased to \$162.1 million at June 30, 2005, compared to \$123.6 million at December 31, 2004, primarily as a result of borrowing for construction of the Marlin Project. The long-term liabilities amount consisted of reserves for future reclamation costs, long-term debt, and future income taxes. At June 30, 2005, the non-current site closure and reclamation liability was \$8.9 million (\$7.6 million at December 31, 2004). Long-term debt incurred for construction at the Marlin Project increased to \$65.0 million at June 30, 2005 (\$30.0 million at December 31, 2004), as the project entered the final months of construction. Future income taxes increased slightly to \$88.2 million from \$86.0 million at December 31, 2004. Future income tax increases were due primarily to income generated from the El Sauzal Mine.

### Capital Resources

On June 30, 2004, the Company signed a loan agreement with International Finance Corporation, a division of the World Bank providing for up to \$45.0 million in funding, at a six-month LIBOR plus 2.625%-based interest rate, for development of the Company's Marlin Project in Guatemala. The facility is secured by a pledge of the Company's shares in the related Guatemalan subsidiaries. As at June 30, 2005 and August 5, 2005, there was \$45.0 million outstanding under the facility. The blended interest rate was 5.515% as of June 30, 2005 and 6.445% as of August 5, 2005; interest is payable semiannually. Principal repayments are scheduled to begin in January 2007 and will be made semi-annually through July 2009. For the three months ended June 30, 2005, \$0.6 million of interest was capitalized to the Marlin Project; \$1.1 million of interest was capitalized for the six months ended June 30, 2005, (2004 - nil). On March 4, 2005, the Company finalized a \$50.0 million revolving credit facility with the Bank of Nova Scotia. The facility is available for borrowing and repayment at any time during the 3-year period ending March 4, 2008 at a LIBOR-based interest rate. The facility is secured by a pledge of the Company's shares in certain U.S. and Mexican mining subsidiaries. As of June 30, 2005 and August 5, 2005, \$20.0 million was outstanding under this facility. The interest rate was 4.51% as of June 30, 2005 and August 5, 2005; interest is payable quarterly. For the three-month and six-month periods ended June 30, 2005, \$0.1 million in interest was capitalized to the Marlin Project.

In the course of its business, the Company may issue debt or equity securities to meet the growth plans of the Company if it determines that additional funding could be obtained under favorable financial terms. No assurance can be given that additional funding will be available or, if available, will be on terms acceptable to the Company.

### COMMITMENTS AND CONTINGENCIES

In the course of its normal business, the Company incurs various contractual obligations and contingent liabilities.

These contractual obligations and contingencies as at June 30, 2005 are shown in the table below:

(amounts in millions of U.S. dollars)

	Less than	1	3	4	5	More than	Total
	one year	years	years	years	years	5 years	
Contractual Obligations							
Operating leases	\$ 0.5	\$	1.1	\$	0.1		\$ 1.7
Minimum royalty payments	\$ 0.3	\$	0.9	\$	0.6	\$ 1.7	\$ 3.5
Construction and equipment purchase contracts	\$ 17.2						\$ 17.2
Long-term debt <sup>(1)</sup>	\$	\$	42.5	\$	22.5		\$ 65.0
	Less than	1	3	4	5	More than	Total
	one year	years	years	years	years	5 years	
Contingencies							
Future site closure and reclamation costs <sup>(2)</sup>	\$ 0.8	\$	0.9	\$	1.8	\$ 19.7	\$ 22.9

<sup>(1)</sup> Reflects the \$65.0 million

principal  
outstanding as  
of June 30,  
2005. Does not  
include future  
interest  
payments on the  
long-term debt.

- (2) In the  
Company's  
financial  
statements,  
\$0.8 million of  
these  
obligations are  
included in  
current  
liabilities and  
\$8.9 million in  
long-term  
liabilities. The  
Company has  
\$10.0 million in  
cash and  
certificates of  
deposit as  
collateral  
backing these  
obligations.



**OUTSTANDING SHARE INFORMATION**

The Company had 131,018,753 common shares outstanding as of June 30, 2005 and as of August 5, 2005. The Company also had outstanding 3,996,200 stock options outstanding as of June 30, 2005 and August 5, 2005. All outstanding options are each exercisable into one common share.

The Company had 200,000,000 shares of common stock authorized as of December 31, 2004. At an extraordinary shareholders&