

# BEACON ROCK RESEARCH

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UPDATE REPORT

## Apollo Gold Corporation (NYSE Amex: AGT; TSX: APG, US\$0.27)

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### Apollo and Linear Well-Matched Emerging Producer

The corporate combination of Apollo Gold Corporation (NYSE Amex: AGT, TSX: APG) and Linear Gold Corp. (TSX: LRR) appears to be a good fundamental match of strengths and needs for the evolving organizations. The combination as structured should present the opportunity for upward rerating of the stock by doubling the market capitalization, consolidating the number of shares of common stock to broaden ownership, and enhancing the gold production/development/exploration profile. Despite general market uncertainty and investor trepidation to accept risk, the proposed business combination and corporate structure appear to both enhance fundamental value and mitigate operating risk, and should be well received.

The overall deal is simple and the motivations transparent. Apollo has a producing asset, the Black Fox gold mine in Timmins, Ontario, while Linear has the Goldfields project's Box and Athona deposits under development in northern Saskatchewan. Also, Linear has cash seeking an immediate return while Apollo has bank project financing that it would like to reduce. These needs appear fairly matched for both companies, while increasing financial flexibility by reducing lender requirements. Both company's shareholders will weigh in on the proposed combination in June of 2010.

The result of the combination would be a new company under the name Brigus Gold Corp. The new company will aptly be named after the town of Brigus, Newfoundland, taken from the town Brickhouse in England, the home of several legendary arctic explorers. Brigus should emerge immediately as a growing junior to mid-tier gold producer, competitive as an investment on both sides of the 49<sup>th</sup> parallel for both retail and institutional investors.

#### *The Deal for Brigus Shareholders*

In general, should shareholders consent, the transaction is scheduled to close in September of 2010. Linear shareholders are to receive 5.474 shares of Apollo. After a four for one share reverse split, this would equate to 1.369 shares of Apollo for Linear shareholders following share consolidation. Brigus will have approximately 129 million shares outstanding, 155 million shares fully diluted, a fully diluted market capitalization of around \$200 million and a share price over one dollar (Canadian).



Figure 1 - Black Fox Open-Pit Mine, Ontario  
Source: Apollo Gold

The increased market capitalization, share price, and U.S. listing has good potential to provide the opportunity for increased market visibility and trading volume in both Canada and the U.S. The larger market capitalization and organization and lower share count may provide a more direct path toward a fuller valuation of company assets and gold production/development/exploration potential.

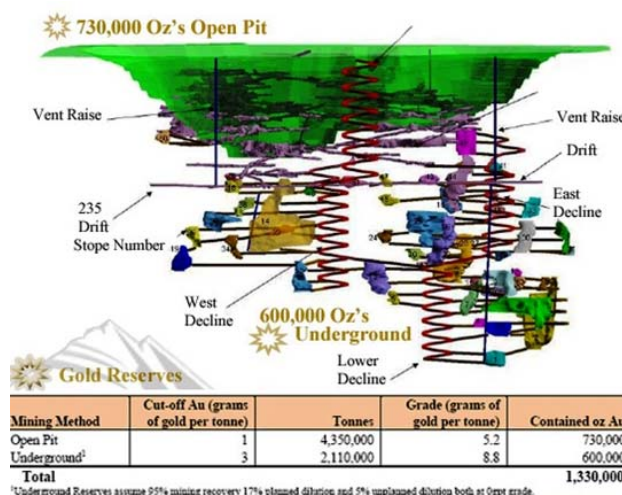
Linear made an important C\$25 million private placement in Apollo on March 19, 2010. Apollo utilized C\$10 million of this placement and US\$8.2 million from closing out in-the-money foreign currency contracts to reduce its Black Fox project financing from the initial US\$70 million to US\$51.8 million, reducing annual interest payments by US\$1.3 million. The project debt is estimated to be US\$46 million at closing and reduced to roughly US\$41 million to \$US35 million by the end of 2010.

The reduction in project financing, accelerating the reduction of the gold hedge, should also significantly increase Brigus' financial flexibility. The original gold hedge was about 250,430 ounces of gold. The gold hedge should be reduced to about 174,000 ounces of gold at closing and to 146,000 ounces of gold by the end of 2010. Considering the Black Fox project commenced production in May of 2009, the reduction in project financing and the gold hedge is impressive.

**Brigus' Gold Resources and Production Profile**

The combined Proven and Probable Reserves of the two companies will total about 2,360,400 ounces of gold grading 2.3 g/t. The primary producing asset is the Black Fox mine with 6,460,000 tonnes, grading 6.4 g/t, containing 1,330,000 ounces of gold for open pit and underground mining (net about 632,000 ore tonnes mined open pit since May of 2009). The remaining mine life of the Black Fox mine is about eight years, with processing capacity of 2,000 tpd.

Total gold production of the Black Fox project in 2009 was 52,961 ounces. Gold production at the Black Fox project is scheduled to step up to 90,000 to 100,000 in 2010. The increase includes an estimated 16,000 ounces of gold mined from higher grades below the proposed open pit of the Black Fox mine. Gold production at the Black Fox project is expected to increase to 105,000 to 115,000 ounces in 2011 and then level off at 120,000 ounces in 2012 for the next several years. Gold production from underground mining is estimated at 40,000 and 60,000 ounces for 2011 and 2012, respectively.



**Figure 2 - Black Fox Mine Cross-section**  
Source: Apollo Gold

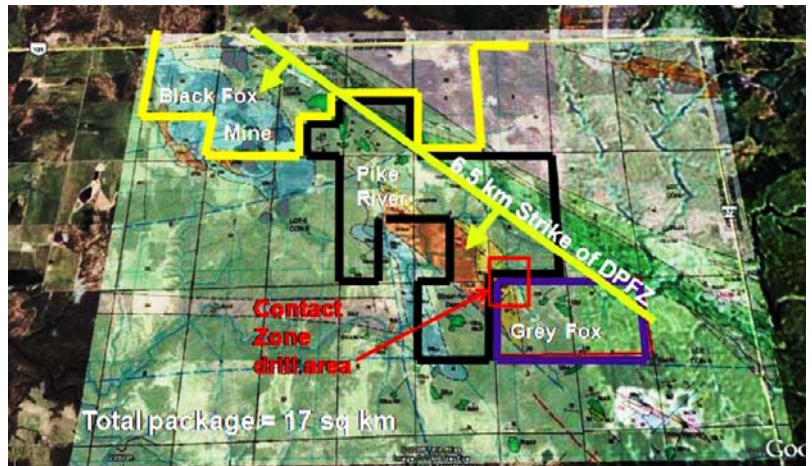
Brigus' other reserves include its Goldfields project near Uranium City, in northern Saskatchewan. The Goldfields project includes the open pit Box and Athona deposits, with potential production as early as 2013. The Box deposit has a 14.9 million tonne gold resource grading 1.4 g/t and containing 685,900 ounces of gold. The Athona deposit has a gold resource of about 10.5 million tonnes, grading 1.0 g/t containing 344,500 ounces of gold. As scheduled, the Goldfields project might provide gold production of 67,000 ounces of gold in 2013, increasing to 73,000 ounces of gold in 2014, for combined gold production of 187,000 ounces and 193,000 ounces in 2013 and 2014, respectively.

**Exploration at May Substantially Extend Life of the Black Fox Project**

The most immediate opportunity for reserve expansion will be by converting gold resources with underground drilling at the Black Fox mine. The Black Fox mine has a Measured and Indicated gold resource of 465,000 tonnes grading 6.4 g/t and an Inferred gold resource of 3.5 million tonnes grading 6.6 g/t. We expect additional drilling under the 400 level. Gold mineralization of 12 gpt has been encountered in two meter intercepts at depths of 840 meters. Some underground gold mines in the Timmins area have been mined to depths of 1,600 meters. The presence of deeper gold mineralization in an area known for deep underground mines suggests good likelihood for adding to resources and extending the life of the Black Project.

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Apollo’s earlier acquisition of the Grey Fox and Pike River properties increased the total land position to 17 sq km and 6.5 km of strike length along the Destor-Porcupine Fault Zone. Exploration in these areas totaled 3,715 meters, from 16 holes in 2008, and 9,936 m in 53 holes in 2009. Clearly the most interesting results were from drill hole #10 in 2008, which at 52.5 meters encountered a 3.5 meter (11 feet) interval with gold grading 455.18 g/t gold (or 13.276 ounces of gold per ton). Apollo is scheduled to produce its first NI 43-101 compliant resource on the Grey Fox in the second quarter of 2010. The control of a lengthy and highly prospective fault zone, combined with additional resources under the Black Fox open pit mine, suggests good potential for significantly increasing and extending the life of the Black Fox project.



**Figure 3 – Black Fox Project**  
**Source: Apollo Gold**

***Formation of Brigus Liberates Value Creation for Apollo***

The formation of Brigus clearly improves the opportunity for fundamentally improving both the opportunity to increase value and reduce the risk profile for both Linear and Apollo shareholders. The opportunity to provide immediate gold production for Linear, while reducing reliance on project financing for Apollo, provides an immediate gain for shareholders. Possibly even more important, the increased market capitalization of Brigus, higher share price, and U.S. Canadian listing, should provide increased visibility and opportunity for both institutional and retail investors, important for a fuller valuation of company assets.

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