

GOLDEN CYCLE GOLD CORP
Form 10-K/A
April 05, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1 to Form 10-K)

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 0-11226

GOLDEN CYCLE GOLD CORPORATION

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)

84-0630963
(I.R.S. Employer
Identification No.)

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Suite 201, 1515 South Tejon,
Colorado Springs, CO
(Address of principal executive offices)

80906
(Zip Code)

Registrant's telephone number, including area code: (719) 471-9013

Securities registered pursuant to Section 12 (g) of the Act:

| (Title of Each Class) | (Name of Each Exchange on which registered) |
|----------------------------|---|
| Common Stock, No Par Value | Pacific Exchange |

Securities Registered Pursuant To Section 12 (b) of the Act: **None**

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 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) 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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$14,705,087

The number of shares of the Registrant's Common Stock outstanding as of March 28, 2005 was 9,669,250.

Documents incorporated by reference:

Portions of the Definitive Proxy Statement for the 2005 Annual Meeting of Shareholders (the 2005 Proxy Statement) are incorporated by reference into Part III of this amended Annual Report on Form 10-K/A.

Explanatory Note:

This Amendment No. 1 to Form 10-K for the fiscal year ended December 31, 2004 is being filed to correct certain disclosures regarding and included in the Consolidated Financial Statements in the initial filing on March 31, 2005. This Form 10-K/A amends a reference to note 8 to the Consolidated Financial Statements in Item 7A, amends the diluted weighted average shares outstanding included in the Consolidated Statements of Operations, and inserts additional information in Note 1 to the Consolidated Financial Statements. There are no other changes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hedge, sell forward or otherwise commit any asset on a contingency basis. We do not normally commit to multi-year contracts other than employment agreements and office space rental (see Notes to Consolidated Financial Statements, Note 8, Commitments and Contingencies). The Joint Venture, in the course of normal business, periodically executes long term supply contracts to limit its exposure to various supply risks. The Joint Venture has not previously hedged or sold forward gold or other assets for the joint account.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item are included herein in Item 15.

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) Documents filed as part of this report:

(1) Financial Statements

Report of Independent Registered Accounting Firm,
Ehrhardt Keefe Steiner & Hottman, P.C.

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Independent Auditors' Report, KPMG LLP

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| | |
|---|----|
| <u>Consolidated Statements of Operations for the Years</u> <u>Ended December 31, 2004, 2003 and 2002</u> | 8 |
| <u>Consolidated Statements of Shareholders' Equity for the Years</u> <u>Ended December 31, 2004, 2003 and 2002</u> | 9 |
| <u>Consolidated Statements of Cash Flows for the Years</u> <u>Ended December 31, 2004, 2003 and 2002</u> | 10 |
| Notes to Consolidated Financial Statements | 11 |

(2) Financial Statement Schedules. Financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits.

(Exhibit Number referenced to Item 601 of Regulation S-K).

Exhibit Index

31.3 Certification of Chief Executive Officer pursuant to the Sarbanes-Oxley Act of 2002, Section 302.

31.4 Certification of Chief Financial Officer pursuant to the Sarbanes-Oxley Act of 2002, Section 302.

32.3 Certification of Chief Executive Officer pursuant to the Sarbanes-Oxley Act of 2002, Section 906.

32.4 Certification of Chief Financial Officer pursuant to the Sarbanes-Oxley Act of 2002, Section 906.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

/s/ R. Herbert Hampton
R. Herbert Hampton, President, Chief
Executive Officer, and Treasurer
(Principal Executive Officer, Principal
Financial Officer, and Principal Accounting
Officer)

Date: April 5, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Golden Cycle Gold Corporation
Colorado Springs, Colorado

We have audited the consolidated balance sheets of Golden Cycle Gold Corporation and Subsidiaries (a Colorado corporation) as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Golden Cycle Gold Corporation and Subsidiaries as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ Ehrhardt Keefe Steiner & Hottman P.C.

February 9, 2005

Denver, Colorado

Report of Independent Registered Public Accounting Firm

Board of Directors
Golden Cycle Gold Corporation:

We have audited the accompanying consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows of Golden Cycle Gold Corporation and subsidiaries for the year ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Golden Cycle Gold Corporation and subsidiaries for the year ended December 31, 2002, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Denver, Colorado

March 21, 2003

GOLDEN CYCLE GOLD CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

| | December 31, 2004 | December 31, 2003 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 457,000 | \$ 202,099 |
| Short-term investments (note 2) | 1,120,273 | 923,669 |
| Interest receivable and other current assets | 13,524 | 7,014 |
| Prepaid insurance | 24,380 | 24,580 |
| Account receivable from sale of water rights (note 3) | | 679,098 |
| Total current assets | 1,615,177 | 1,836,460 |
| Property and equipment, at cost: | | |
| Land | 2,025 | 2,025 |
| Mineral claims | 20,657 | 20,657 |
| Furniture and fixtures | 10,030 | 10,037 |
| Machinery and equipment | 31,819 | 33,806 |
| | 64,531 | 66,525 |
| Less accumulation depreciation and depletion | (33,126) | (30,601) |
| | 31,405 | 35,924 |
| Total assets | \$ 1,646,582 | \$ 1,872,384 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 56,868 | \$ 58,479 |
| Total current liabilities | 56,868 | 58,479 |
| Commitments and contingencies (note 8) | | |
| Shareholders' equity (note 6): | | |
| Common stock, no par value. Authorized 100,000,000 shares; issued and outstanding 9,669,250 shares in 2004; 9,542,250 shares in 2003 | 7,406,317 | 7,307,854 |
| Additional paid-in capital | 1,927,736 | 1,927,736 |
| Accumulated deficit | (7,712,526) | (7,389,944) |
| Accumulated other comprehensive loss | (31,813) | (31,741) |
| Total shareholders' equity | 1,589,714 | 1,813,905 |
| Total liabilities and shareholders' equity | \$ 1,646,582 | \$ 1,872,384 |

See accompanying notes to consolidated financial statements.

GOLDEN CYCLE GOLD CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Operations

| | For the Year Ended December 31, | | |
|--|---------------------------------|------------|--------------|
| | 2004 | 2003 | 2002 |
| Revenue: | | | |
| Distributions from mining joint venture in excess of carrying value (note 4) | \$ 250,000 | \$ 250,000 | \$ 250,000 |
| Expenses: | | | |
| General and administrative expense | 542,510 | 464,348 | 345,209 |
| Depreciation expense | 5,286 | 1,217 | 3,759 |
| Exploration expense | 54,372 | 141,851 | 153,934 |
| | 602,168 | 607,416 | 502,902 |
| Operating loss | (352,168) | (357,416) | (252,902) |
| Other income (expense): | | | |
| Interest and other income | 21,545 | 15,405 | 29,847 |
| Gold bullion mark-up to market | 8,041 | 24,229 | |
| Gain (loss) on assets sold (net) | | 541,917 | (375) |
| | 29,586 | 581,551 | 29,472 |
| Net income (loss) | \$ (322,582) | \$ 224,135 | \$ (223,430) |
| Basic earnings (loss) per share | \$ (0.03) | \$ 0.02 | \$ (0.02) |
| Diluted earnings (loss) per share | (0.03) | 0.02 | (0.02) |
| Basic weighted average shares outstanding | 9,597,231 | 9,529,100 | 9,442,250 |
| Diluted weighted average shares outstanding | 9,597,231 | 10,364,100 | 9,442,250 |

See accompanying notes to consolidated financial statements.

GOLDEN CYCLE GOLD CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

For the Years ended December 31, 2004, 2003, and 2002

| | Common stock | | Additional | Accumulated | Accumulated | Total |
|---|--------------|--------------|--------------|----------------|---|--------------|
| | Shares | Amount | paid-in | deficit | other comprehensive loss foreign currency translation adjustment | |
| Balance at December 31, 2001 | 9,442,250 | \$ 7,116,604 | \$ 1,927,736 | \$ (7,390,649) | \$ (30,715) | \$ 1,622,976 |
| Net loss | | | | (223,430) | | (223,430) |
| Foreign currency translation adjustment | | | | | (823) | (823) |
| Comprehensive loss | | | | | | (224,253) |
| Balance at December 31, 2002 | 9,442,250 | 7,116,604 | 1,927,736 | (7,614,079) | (31,538) | 1,398,723 |
| Stock options exercised | 100,000 | 191,250 | | | | 191,250 |
| Net income | | | | 224,135 | | 224,135 |
| Foreign currency translation adjustment | | | | | (203) | (203) |
| Comprehensive income | | | | | | 223,932 |
| Balance at December 31, 2003 | 9,542,250 | 7,307,854 | 1,927,736 | (7,389,944) | (31,741) | 1,813,905 |
| Stock options exercised | 127,000 | 98,463 | | | | 98,463 |
| Net loss | | | | (322,582) | | (322,582) |
| Foreign currency translation adjustment | | | | | (72) | (72) |
| Comprehensive net loss | | | | | | (322,654) |
| Balance at December 31, 2004 | 9,669,250 | \$ 7,406,317 | \$ 1,927,736 | \$ (7,712,526) | \$ (31,813) | \$ 1,589,714 |

See accompanying notes to consolidated financial statements.

GOLDEN CYCLE GOLD CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | For the Year Ended December 31, | | |
|--|---------------------------------|------------|--------------|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ (322,582) | \$ 224,135 | \$ (223,430) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | | |
| Depreciation expense | 5,286 | 1,217 | 3,759 |
| Increase in market value of gold asset | (8,041) | (24,229) | |
| (Gain) loss on disposal of assets | | (541,817) | 375 |
| Decrease (increase) in interest receivable and other current assets | (6,510) | 5,605 | 9,994 |
| Decrease (increase) in prepaid insurance | 200 | (5,436) | 505 |
| Increase (decrease) in accounts payable and accrued liabilities | (1,611) | 40,227 | (7,680) |
| Net cash used in operating activities | (333,258) | (300,298) | (216,477) |
| Cash flows from investing activities: | | | |
| Decrease (increase) in short-term investments, net | (188,563) | (258,652) | 236,516 |
| Proceeds from account receivable on sale of water rights | 679,098 | | |
| Purchases of property and equipment | (767) | (8,210) | (11,846) |
| Net cash provided by (used in) investing activities | 489,768 | (266,862) | 224,670 |
| Cash flows provided by financing activity: | | | |
| Proceeds on exercise of stock options | 98,463 | 191,250 | |
| Net cash provided by investing activities | 98,463 | 191,250 | |
| Effect of exchange rate changes on cash | (72) | (203) | (823) |
| Net increase (decrease) in cash and cash equivalents | 254,901 | (376,113) | 7,370 |
| Cash and cash equivalents, beginning of year | 202,099 | 578,212 | 570,842 |
| Cash and cash equivalents, end of year | \$ 457,000 | \$ 202,099 | \$ 578,212 |

Supplemental disclosure of non-cash activity:

During 2003, the Corporation sold assets held for sale for \$679,098 which was recorded as a receivable at December 31, 2003.

During 2004, 77,900 shares were surrendered in cashless exercise of stock options.

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

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Golden Cycle Gold Corporation (the Company), a Colorado corporation, acquires and explores mining properties in Colorado, Nevada, and the Republic of the Philippines. The Company's principal investment consists of its joint venture participation in the Cripple Creek and Victor Gold Mining Company (the Joint Venture), a precious metals mining company in the Cripple Creek Mining District of Teller County, Colorado. In addition, during 1997 the Company established Golden Cycle Philippines, Inc. (GCPI), a wholly owned subsidiary of the Company, in the Republic of the Philippines in order to participate in potential mining opportunities. In January 2002, the Company established Golden Cycle Gold Exploration, Inc. (GCGE), a wholly owned subsidiary, to conduct exploration activities for the Company.

(a) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make various estimates and assumptions in determining the reported amounts of assets, liabilities, revenues, and expenses for each period presented, and in the disclosure of commitments and contingencies. Actual results could differ significantly from those estimates. Changes in these estimates and assumptions will occur based on the passage of time and the occurrence of future events.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) *Cash and Cash Equivalents*

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalent.

(d) Short-Term Investments

Short-term investments consist of U.S. Treasury Bills and certificates of deposit. U.S. Treasury Bills that the Company has both the intent and ability to hold to maturity are carried at amortized cost. Short-term investments also includes 310 troy ounces of gold bullion purchased by the Company in 2002. Interest revenue and the increase or decrease in the value of the gold bullion is included in the consolidated statement of operations.

(e) Investment in Mining Joint Venture

The Company accounts for its investment in the Joint Venture on the equity method. In prior years, the Company's share of Joint Venture losses exceeded the remaining carrying value of the investment and, accordingly, the investment was reduced to zero. Joint Venture distributions in excess of the investment carrying value are recorded as income. The Company does not record its share of Joint Venture losses incurred subsequent to the reduction of its investment balance to zero, as the Company has no obligation to fund operating losses. To the extent the Joint Venture is profitable, the Company does not record its share of equity income until the cumulative amount of previously unrecorded Joint Venture losses have been recouped.

(f) Mineral Exploration and Development Costs

Mineral exploration costs are expensed as incurred. Mineral property development costs are capitalized and depleted based upon estimated proven and probable recoverable

reserves. The Company has no capitalized mineral property development costs at December 31, 2004 or December 31, 2003.

The Company assesses the carrying value of its long-lived assets for impairment whenever changes in facts or circumstances indicate that they may be impaired. Potential impairment is estimated by comparing estimated future undiscounted cash flows expected to be generated from such assets with their net book value. If net book value exceeds estimated cash flows, the asset is written down to fair value. The Company has not recorded impairment costs at December 31, 2004 or December 31, 2003.

(g) Property and Equipment

Office furniture, fixtures, and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives ranging from three to ten years.

(h) Foreign Currency Translation

The GCPI operations' functional currency is the local currency and, accordingly, the assets and liabilities of its Philippines operations are translated into their United States dollar equivalent at rates of exchange prevailing at each balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the periods in which such items are recognized in operations.

Gains and losses arising from translation of the consolidated financial statements of GCPI operations are included in the accumulated other comprehensive income (loss) in shareholders' equity. Amounts in this account are recognized in the consolidated statements of operations when the related net foreign investment is reduced. Gains and losses on foreign currency transactions are included in the consolidated statements of operations.

(i) Stock Options

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* (SFAS No. 148). SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosures requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The amendments to SFAS No. 123 are effective for financial statements for fiscal years ending after December 15, 2002. Had compensation cost been determined under the provisions of SFAS No. 123, the following pro forma net loss and per share amounts would have been recorded. net loss and per share amounts would have been recorded.

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| | 2004 | | 2003 | | 2002 |
|---|--------------|----|----------|----|-----------|
| Net income (loss): | | | | | |
| As reported | \$ (322,582) | \$ | 224,135 | \$ | (223,430) |
| Deduct: Total stock-based employee compensation expense, determined under fair value based method for all awards | (182,398) | | (69,600) | | (230,916) |
| Pro forma | (504,980) | | 154,535 | | (454,346) |
| Basic and diluted earnings (loss) per share: | | | | | |
| As reported | \$ (0.03) | \$ | 0.02 | \$ | (.02) |
| Pro forma | (0.05) | | 0.02 | | (.04) |

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted:

| | Dividend yield | Expected volatility | Risk-free interest rate | Expected life (in years) | Weighted- average fair value of option |
|-------------------------|-------------------|------------------------|-------------------------------|--------------------------------|---|
| Options granted in 2002 | 0% | 48% | 4.61% | 10 | \$ 1.84 |
| Options granted in 2003 | 0% | 38% | 4.10% | 10 | \$ 1.39 |
| Options granted in 2004 | 0% | 55% | 4.77% | 10 | \$ 1.82 |

(j) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities using enacted tax rates expected to apply in the years in which such temporary differences are expected to be recovered or settled. Changes in tax rates are recognized in the period of the enactment date. A valuation allowance is recognized unless tax assets are more likely than not to be realized.

(k) Comprehensive Income

In 1998, we adopted SFAS No. 130, *Reporting Comprehensive Income*. SFAS No. 130 requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments, shall be reported, net of their related tax effect, to arrive at comprehensive income (loss). We have disclosed comprehensive income (loss) in our consolidated financial statements accordingly.

(1) Revenue Recognition

The Company recognizes revenue as advanced distributions from the Joint Venture are received.

(m) Per Share Information

Basic earnings (loss) per common share are computed as net income (loss) divided by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share are computed as net income (loss) divided by the weighted average number of common shares and potential common shares, using the treasury stock method, outstanding during the period.

(2) Short-Term Investments

The Company held certificates of deposit of approximately \$985,000 and \$696,000 at December 31, 2004 and 2003, respectively. All certificates of deposit held at December 31, 2004 mature within one year. Short-term investments also include 310 troy ounces of gold bullion purchased by the Company in 2002 at a cost of \$102,859 and is carried at market value of \$135,129 at December 31, 2004 which includes an unrealized gain of \$32,270.

(3) Accounts Receivable From Sale of Water Rights

The Company completed the sale of certain Water Rights it owned in Fremont County, Colorado to the City of Cripple Creek on December 31, 2003, for \$679,098 in the form of a receivable and resulted in a \$546,418 gain. The Company does not have any further Water Rights.

(4) Investment in Mining Joint Venture

The Company owns an interest in the Joint Venture with AngloGold Colorado (AngloGold). AngloGold manages the Joint Venture. The Joint Venture conducts exploration, development, and mining of certain properties in the Cripple Creek Mining District, Teller County, Colorado. The Joint Venture owns or controls surface and/or mineral rights in the Cripple Creek Mining District, certain portions of which are being actively explored and developed.

The Joint Venture Agreement, as amended, generally requires AngloGold to finance operations and capital expenditures of the Joint Venture. The Joint Venture is currently operating in an Initial Phase that will end when (i) the Initial Loans (defined below) have been repaid and (ii) Net Proceeds (defined in the Joint Venture Agreement generally as gross revenues less costs) in the amount of \$58 million have been distributed to the joint venturers in the proportion of 80% to AngloGold and 20% to the Company. The Joint Venture Agreement provides that, during the period from January 1, 1991 until the end of the Initial Phase, all funds required for operations and mine development by the Joint Venture will be loaned (the Initial Loans) to the Joint Venture by either AngloGold or, if such loans are available at a lower cost than from AngloGold, financial institutions. As of December 31, 2004, Initial Loans were approximately \$365.7 million and no Net Proceeds have been distributed. Initial Loans must be repaid prior to Net Proceeds being distributed to the venturers. After the Initial Phase, the Joint Venture will distribute metal in kind, 67% to AngloGold and 33% to the Company. The Agreement also provides for the Company to receive a minimum annual distribution of \$250,000 during the Initial Phase. Beginning in 1994, such minimum annual distributions are recoupable against the Company's future share of Net Proceeds, if any.

Whether future gold prices and the results of the Joint Venture's operations will reach and maintain a level necessary to repay the Initial Loans, complete the Initial Phase, and thereafter generate net income cannot be assured due to uncertainties inherent within any mining operation. Based on the amount of Initial Loans payable to the manager and the uncertainty of future operating revenues, there is no assurance that the Company will receive more than the Minimum Annual Distribution from the Joint Venture in the foreseeable future.

The Company's share of 2004 Joint Venture net income which has not been recorded in its consolidated financial statements is approximately \$1,538,000. The Company's share of the

2003 and 2002 Joint Venture losses, which have not been recorded in its consolidated financial statements is approximately \$93,800 and \$2,863,600, respectively. As of December 31, 2004, the Company's accumulated unrecorded losses from the Joint Venture are approximately \$17,480,000.

The condensed balance sheets of the Joint Venture as of December 31, 2004 and 2003 are summarized as follows:

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| | 2004 | 2003 |
|--|-------------------|----------------|
| | (In thousands) | |
| Assets | | |
| Inventory | \$ 103,235 | 98,433 |
| Other current assets | 662 | 5,002 |
| Total current assets | 103,897 | 103,435 |
| Fixed assets and mine development costs, net | 245,106 | 250,310 |
| Total assets | \$ 349,003 | 353,745 |
| Liabilities and Venturers Deficit | | |
| Current liabilities | \$ 13,473 | 14,377 |
| Payable to AngloGold | 365,698 | 376,515 |
| Capital lease obligations | 10,451 | 12,772 |
| Asset retirement obligation | 16,716 | 14,786 |
| Other long-term liabilities | 1,691 | 1,763 |
| Total liabilities | 408,029 | 420,213 |
| Venturers deficit | (59,026) | (66,468) |
| Total liabilities and Venturers deficit | \$ 349,003 | 353,745 |

The condensed statements of operations of the Joint Venture for each of the years in the three-year period ended December 31, 2004 are summarized as follows:

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| | 2004 | 2003 (In thousands) | 2002 |
|--|------------|------------------------|-------------|
| Revenue | \$ 135,673 | \$ 102,645 | \$ 70,462 |
| Operating expenses | (104,356) | (85,138) | (63,123) |
| Gross profit | 31,317 | 17,507 | 7,339 |
| Interest expense | (23,813) | (22,378) | (20,905) |
| Other income (expense) | 188 | (514) | (752) |
| Income (loss) before cumulative effect of change in accounting principle | 7,692 | (5,385) | (14,318) |
| Cumulative effect of change in accounting principle | | 4,916 | |
| Net income (loss) | \$ 7,692 | \$ (469) | \$ (14,318) |

(5) Income Taxes

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2004 and 2003 are presented below:

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| | 2004 | 2003 |
|----------------------------------|------------|-----------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 801,000 | 664,000 |
| Exploration expenditures | 67,000 | 96,000 |
| Other | 5,000 | |
| | 873,000 | 760,000 |
| Valuation allowance | (873,000) | (760,000) |
| Net deferred tax assets | \$ | |

A reconciliation of the statutory federal income tax rate to the effective tax rate follows:

| | 2004 | 2003 |
|-----------------------------------|---------|---------|
| Statutory federal income tax rate | 34.0% | 34.0% |
| Effect of: | | |
| State and local income taxes | 3.30 | 3.30 |
| Other - net | (1.96) | 0.40 |
| Change in valuation allowance | (35.34) | (37.70) |
| Effective tax rate | 0.00% | 0.00% |

At December 31, 2004, the Company has net operating loss carryforwards for income tax purposes of approximately \$2,148,000 which expire beginning in 2005 through 2025.

The Company has not recorded an income tax benefit in 2004 or 2003 as it does not believe it is more likely than not that the benefit of the deferred tax assets will be realized in the future.

(6) Common Stock Options

During 1992, the Company's Board of Directors adopted a Directors' Stock Option Plan (the Directors' Plan) and a 1992 Stock Option Plan (the 1992 Plan). All options available under the Directors' Plan were granted prior to December 31, 1994. During 1997, shareholders approved the 1997 Officers' and Directors' Stock Option Plan, and during 2002, shareholders approved the 2002 Stock Option Plan pursuant to which 1,000,000 and 625,000 shares, respectively, of the Corporation's common stock were reserved for issuance pursuant to options to be granted. The 1992 Plan provided for the grant of options on a discretionary basis to certain employees and consultants. Under each plan, the exercise price cannot be less than the fair market value of the common stock on the date of the grant. The expiration of the options is ten years from the date of the grant.

During 2004, the Company granted 100,000 options to directors of the Corporation, and during 2003 and 2002 the Company granted 50,000 and 125,000 options respectively to directors of the Corporation under the above plans.

Changes in stock options for each of the years in the three-year period ended December 31, 2004 are as follows:

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| | Shares | Option price per share | | Weighted average exercise price |
|--|-----------|---------------------------|------|---------------------------------------|
| Outstanding and exercisable at December 31, 2001 | 760,000 | \$ 1.41 | \$ | 1.41 |
| Granted | 125,000 | | 2.33 | 2.33 |
| Outstanding and exercisable at December 31, 2002 | 885,000 | 1.19 | 2.33 | 1.52 |
| Granted | 50,000 | | 2.60 | 2.60 |
| Exercised | (100,000) | 1.50 | 2.05 | 1.91 |
| Outstanding and exercisable at December 31, 2003 | 835,000 | 1.04 | 2.60 | 1.46 |
| Granted | 100,000 | | 2.60 | 2.60 |
| Exercised | (204,900) | 1.33 | 1.80 | 1.44 |
| Expired | (320,100) | 1.04 | 2.33 | 1.63 |
| Outstanding and exercisable at December 31, 2004 | 410,000 | 1.04 | 2.60 | 1.92 |

The weighted average remaining term of options outstanding was 6.81 and 6.35 years at December 31, 2004 and 2003, respectively.

(7) Recently Issued Financial Accounting Standards:

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Non-monetary Assets an amendment of APB No. 29*. This Statement amends APB Opinion No. 29, *Accounting for Non-monetary Transactions* to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. This Statement is effective for fiscal years beginning after June 15, 2005. We do not believe that the adoption of SFAS No. 153 will have a material impact on our financial position, net earnings or cash flows.

In December 2004, the FASB issued SFAS No. 123 revised 2004, *Share-Based Payment*. This Statement is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*, and supercedes APB No. 25, *Accounting for Stock Issued to Employees*. The Statement requires companies to recognize in the income statement the grant-date fair value of stock options and other equity based compensation issued to employees. This Statement is effective as of the beginning of the first interim or annual period that commences after June 15, 2005. The Company cannot yet determine the impact that the adoption of SFAS No. 123 revised 2004 will have on our financial position, net earnings or cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs An Amendment of ARB No. 43, Chapter 4* (SFAS 151). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of so abnormal as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after

June 15, 2005. We are currently evaluating the effect that the adoption of SFAS 151 will have on our results of operations or financial position, but do not expect SFAS 151 to have a material effect.

In September 2004, the FASB issued EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF No. 03-1). The guidance in EITF No. 03-1 was effective for other-than-temporary impairment evaluations made in reporting periods beginning after June 15, 2004. However, certain provisions regarding the assessment of whether an impairment is other than temporary have been delayed. Although the disclosure requirements continue to be effective in annual financial statements for fiscal years ending after December 15, 2003, for investments accounted for under SFAS No. 115 and 124. For all other investments addressed by EITF No. 03-1, the disclosures continue to be effective in annual financial statements for fiscal years ending after June 15, 2004. We do not believe that the adoption of EITF No. 03-1 will have a material impact on our financial position, net earnings or cash flows.

(8) Commitments and Contingencies

As previously reported, the Sierra Club and Mineral Policy Center filed two complaints in U.S. District Court for the District of Colorado against Cripple Creek & Victor Gold Mining Company (CC&V) and its Joint Venture partners, including the Company, alleging certain violations of the U.S. Clean Water Act (CWA).

1. The first ten Causes of Action in the first of these two cases allege un-permitted discharges of pollutants into Fourmile Creek and from the Roosevelt Tunnel into Cripple Creek, and discharges of pollutants exceeding permitted amounts from the Carlton Tunnel and Arequa Gulch outfalls; the eleventh and twelfth causes of action in that case concern a discharge permit issued by the Colorado Water Quality Control Division in 1996 for an outfall in Arequa Gulch. A pre-trial conference was held on March 25, 2005, in this case, and it should be ready by mid-summer for trial, though no trial date has yet been set.

2. The second of these two cases relates to seeps asserted to be point-source discharges of Cresson Project drainage from the Moffat Tunnel Cribbing Wall and the Squaw Gulch Pond to Cripple Creek and a tributary thereto in Squaw Gulch. Plaintiffs assert and Defendants deny that the law requires a permit for these seeps. This case was set for trial on April 12, 2005, but that setting was vacated and the two cases consolidated for trial on a date not yet set.

Management is contesting both of these cases, and is coordinating its own efforts with those of the owner and operator, Cripple Creek & Victor Gold Company (CC&V), and the majority owners thereof, AngloGold North America, Inc., and AngloGold Colorado Corp. The Company is neither the owner nor operator and its interest is limited to its minority interest in CC&V. Therefore, the likelihood of an unfavorable outcome to the Company cannot be evaluated, and no estimate can be made of the amount or range of potential loss, if any, which might result either to the Company or to its interest in CC&V.

The suit pending at the end of 2003 in Madison County, Illinois, was recently dismissed on stipulation.

The Company expended approximately \$17,000 and \$12,500 during the years 2004 and 2003, respectively, defending against these suits.

(9) Selected quarterly financial data

(unaudited)

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| | 2004 | | | |
|--|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Distributions from mining joint venture in excess of carrying value (note 4) | \$ 250,000 | \$ | \$ | \$ |
| Operating income (loss) | 158,252 | (157,013) | (214,486) | (138,921) |
| Net income (loss) | 162,975 | (151,885) | (207,868) | (125,804) |
| Net income (loss) per share | 0.02 | (0.02) | (0.02) | (0.01) |
| Pro forma net income (loss) per share | 0.02 | (0.04) | (0.02) | (0.01) |

| | 2003 | | | |
|--|------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Distributions from mining joint venture in excess of carrying value (note 4) | \$ 250,000 | \$ | \$ | \$ |
| Operating income (loss) | 119,524 | (192,563) | (163,950) | (120,427) |
| Net income (loss) | 124,689 | (188,316) | (160,193) | 447,955 |
| Net income (loss) per share | 0.01 | (0.02) | (0.02) | 0.05 |
| Pro forma net income (loss) per share | 0.01 | (0.03) | (0.02) | 0.05 |