



# DUNDEE

PRECIOUS METALS INC.

*DPM: TSX DPM: TSX DPM: TSX*



## Second quarter report

six months ended

June 30, 2005



# DUNDEE

PRECIOUS METALS INC.

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# Management's Discussion and Analysis of Financial and Operating Results

The following is management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Dundee Precious Metals Inc. for the quarter ended June 30, 2005. This discussion should be read in conjunction with the financial information included in the financial statements as well as with the financial statements for the eleven months ended December 31, 2004 and the related MD&A.

This information is provided as at August 5, 2005.

## HIGHLIGHTS

- Financial position remains strong; working capital \$55.7 million plus market value of investment portfolio of \$159.6 million equate to \$4.01 per share;
- The Definitive Feasibility Study for the Krumovgrad Gold Project ("Ada Tepe") completed; the Board of Directors approved the expenditure of US\$75 million to construct the mine; Project Manager responsible for the construction of the mine appointed in July 2005;
- An Environmental Impact Assessment ("EIA") for the Krumovgrad Project has been completed and submitted to Krumovgrad Municipality and regional authorities; public hearings scheduled for August, to be followed by completion of the governmental approval process;
- Chelopech ore production reaches an annualized rate of over 950,000 tonnes in April 2005; the mine is profitable for the first six months of 2005;
- The Definitive Feasibility Study to evaluate metal production at Chelopech expected by year end as processing optimization work continues;
- US\$10 million financing for Chelopech with the European Bank for Reconstruction and Development closed in early April 2005; and
- The Company is on schedule to earn a 60% interest in the Back River Project located in Nunavut, Canada.

## CORPORATE OVERVIEW

Dundee Precious Metals Inc. ("Dundee" or the "Company") is a Canadian based international mining company. Its common shares (symbol DPM) are traded on the Toronto Stock Exchange ("TSX").

During 2003, the Company acquired a gold/copper mine ("Chelopech") and a gold property ("Krumovgrad Gold Project") in Bulgaria. Subsequently, the Company initiated the expansion and redevelopment of the Chelopech mine to bring ore production up to 2.0 million tonnes per annum and produce metal using pressure oxidation processing facilities. The Company also approved the Krumovgrad Gold Project feasibility study. The Bulgarian mining assets were consolidated April 1, 2004 at the time Dundee changed from a closed-end investment company to an operating mining company.

In addition the Company has a number of active exploration properties in the Balkans as well as an option to earn a 60% interest in certain exploration properties located in Nunavut in the Canadian Arctic (the "Back River Project").

Dundee also holds a significant investment portfolio of marketable securities of mining companies, principally focused on the exploration, development and production of precious metals throughout the world, with a current market value of approximately \$159.6 million and cash on hand of approximately \$30.8 million as at June 30, 2005.

## OUTLOOK

The Company continues to achieve its goals at the Chelopech Mine, the Krumovgrad Gold Project and at its exploration properties in the Balkans and Nunavut, Canada.

The Chelopech Mine is continuing operations while undertaking a significant redevelopment of its mining and processing methods and capacities. As a result there will be quarterly variability in its operating results until all planning is complete and changes are effected. As a result of the current oversupply conditions in the concentrate markets, which the Company will continue to monitor, its plans to increase Chelopech

mining rate have been deferred to coincide with expected completion of the pressure oxidation plant. The planned expansion of the mill processing capacity will also be rescheduled to coincide with the pressure oxidation plant completion. The Company will maintain its production levels such that it fulfills all its obligations under its existing concentrate sales contracts.

The Definitive Feasibility Study for the pressure oxidation plant to produce metal at Chelopech is planned to be presented to the Board of Directors before the end of 2005. The benefit of the Company producing metal will be much greater than selling concentrate to third party smelters due to the reduction in transportation costs, third party treatment charges and the elimination of processing penalties.

The Definitive Feasibility Study for the Krumovgrad Gold Project was accepted by the Board of Directors in July 2005. The Company is proceeding with its plan to seek necessary government and community approvals in order to construct the mine and to acquire land required for construction facilities.

Exploration activities continue in the Balkans as well as in Nunavut, Canada. The Company is acquiring additional mining concessions in the Balkans and is advancing its plan to earn a 60% interest in the Back River exploration property located in Nunavut, Canada.

## **REVIEW OF BUSINESS ACTIVITIES**

The Company currently has two principal business segments: (1) mining, and (2) investing.

### **MINING ACTIVITIES**

#### **Chelopech**

##### *Redevelopment*

Underground development continues to be ahead of plan for the year. The conversion of mining methods to long hole open stoping has commenced and has accounted for approximately 65% of ore production during the quarter.

Construction of a 2,300 metre decline from surface to the underground mine workings began in April 2004 from both the surface portal and the underground exit point. Completion of the decline is critical to achieving an annualized production rate of 2.0 million tonnes per year of ore mined. The Company has ordered specialized equipment to advance the decline through difficult ground conditions and expects it to arrive on site by early August. The decline is expected to be completed in 2006.

##### *Pressure Oxidation Plant*

The Company's feasibility study to evaluate direct metal production using autoclave technology is continuing. Before completing the feasibility study, additional testing is being undertaken to confirm gold and copper recoveries from variability in the ore samples, thus providing further confidence in the long-term stability of the operation and additional samples for environmental testing.

#### **Operations**

The Company continues to operate the Chelopech mine during this period of redevelopment. The following is a brief summary of the operating performance.

##### *Costs of Production*

Ore mined and processed over the three month period ended June 30, 2005 averaged over 70,000 tonnes per month compared to an average of approximately 54,000 tonnes per month mined in the prior year comparable period.

Ore grades and recoveries were lower than the prior year comparable period and slightly better than the first quarter of 2005. Due to excessive rainfall in the latter half of the second quarter, access to the higher grade areas was restricted.

(in USD except as otherwise stated)

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005
Ore mined (mt)	222,227	162,440	<b>435,371</b>
Ore processed (mt)	210,383	163,290	<b>407,450</b>
Head grade			
Copper (%)	1.54%	1.68%	<b>1.45%</b>
Gold (g/mt)	3.93	3.99	<b>3.97</b>
Concentrate produced (mt)	16,061	14,867	<b>29,123</b>
Metals contained in concentrate			
Copper (lbs)	5,824,606	5,156,606	<b>10,513,833</b>
Copper (% recovered)	81.51%	85.02%	<b>80.81%</b>
Gold (ounces)	11,513	13,024	<b>22,415</b>
Gold (% recovered)	43.28%	62.19%	<b>43.10%</b>
<b>Cash cost per tonne of ore processed</b>	<b>\$ 31.01</b>	<b>\$ 43.67</b>	<b>\$ 31.76</b>
<b>Cash cost per pound of copper in concentrate <sup>(1)</sup></b>	<b>\$ 0.69</b>	<b>\$ 0.64</b>	<b>\$ 0.73</b>
<b>Cash cost per ounce of gold in concentrate <sup>(1)</sup></b>	<b>\$ 195</b>	<b>\$ 236</b>	<b>\$ 217</b>

(1) Gold and copper are accounted for as co-products. Copper sales are converted into gold sales using the ratio of the average gold value to the average copper value for the period. The calculation of total cash costs per ounce is net of by-product silver sales revenue.

(2) The Company did not report as a mining company until April 2004, consequently there are no 2004 comparatives.

Cost per unit of ore mined decreased from the prior quarter and from the prior year comparable period. This is in line with expectations as a result of fixed costs being allocated to greater production volumes. A large proportion of Chelopech's operating costs are fixed and it is expected that unit costs will continue to decrease as production increases.

Ore production at the end of June 2005 is ahead of expectation and it is expected that the mine will meet or exceed the current year target. Cash cost per pound of copper was higher and per ounce of gold was lower than the prior quarter although higher than expectation due to lower than planned ore grades and metal recovery rates as a result of the area of the orebody currently being mined.

### Sales

Demand for finished copper remains strong as inventories remain at historically low levels. Supply disruptions combined with low inventory levels led to increasing prices during the period.

The concentrate market, however, continues to be in oversupply as available material to the smelters exceeds their processing capacity. As a result, spot treatment and refining charges have continued to rise during the year. The market for the concentrate from Chelopech with its high arsenic content, is limited. Chelopech has committed contracts with smelters and traders for the sale of 80,000 tonnes for 2005.

Sales for the six months ended June 30, 2005 were lower than plan due to a delay, to the third quarter, of a shipment originally scheduled for the second quarter of 2005.

### Cost of Sales

In the mining industry a common measure of performance is cash cost for which there is no standard definition prescribed under Generally Accepted Accounting Principles (GAAP). This measure is unlikely to be comparable to similar measures that may be presented by other issuers within the industry. The Company believes this non-GAAP measure is relevant and useful disclosure to investors as it demonstrates the Company's ability to generate positive cash margins.

(in USD except as otherwise stated)

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005
<b>Sales</b>			
Sales (CDN)	\$ 10,805	\$ 10,033	\$ 22,440
Sales (US)	\$ 8,686	\$ 8,159	\$ 18,168
Concentrate (dmt)	14,478	14,787	29,702
Copper in concentrate (lbs)	5,206,740	5,077,632	10,702,667
Gold in concentrate (ounces)	11,308	12,622	25,409
Average realized copper price (\$'s per lb) <sup>(1)</sup>	\$ 1.50	\$ 1.27	\$ 1.47
Average realized gold price (\$'s per ounce) <sup>(1)</sup>	\$ 425	\$ 396	\$ 419
<b>Cost of Sales</b>			
Cost of sales per financial statements (CDN)	\$ 9,467	\$ 8,743	\$ 21,227
Cost of Sales (US)	\$ 7,613	\$ 6,522	\$ 16,976
Deduct / Add:			
Depreciation	\$ (916)	\$ (1,027)	\$ (2,026)
Royalties	(331)	(251)	(713)
By-product silver sales	(238)	(154)	(447)
Non-cash adjustment			246
Total cash costs per Gold Institute Standard	6,127	5,090	14,036
<b>Cash cost per pound of copper sold in concentrate<sup>(2)</sup></b>	\$ 0.73	\$ 0.56	\$ 0.77
<b>Cash cost per ounce of gold sold in concentrate<sup>(2)</sup></b>	\$ 207	\$ 176	\$ 228

(1) Realized prices before treatment, refining, transportation, penalty charges and by-product credits of US\$3,930,010 and US\$8,211,292 for the three and six months ended June 30, 2005 and \$3,287,905 for the three month period ended June 30, 2004.

(2) Cash costs per unit per Gold Institute Production Cost Standard (a non-GAAP measure). Gold and copper are accounted for as co-products. Copper sales are converted into gold sales using the ratio of the average gold value to the average copper value for the period. The calculation of total cash costs is net of by-product silver sales revenue.

(3) The Company did not report as a mining company until April 2004, consequently there are no first quarter 2004 comparatives.

During the three and six months ended June 30, 2005, total operating costs aggregated \$9.5 million and \$21.2 million; total operating cost includes the cost of concentrate sold of \$8.3 million and \$18.9 million and mine site administration of \$1.2 million and \$2.3 million, respectively.

During the three month period ended June 30, 2004, total operating costs aggregated \$8.7 million and are comprised of the cost of concentrate sold of \$7.6 million and mine site administration of \$1.1 million.

Cost per unit of metal recovered is higher than the prior year comparable period due to lower grades mined and lower recovery rates realized.

## Krumovgrad

On July 5, 2005, the Company's Board of Directors accepted the Definitive Feasibility Study and approved the required capital expenditure of US\$75 million to construct the mine at Krumovgrad.

The feasibility study confirms the economic viability of the project and allows the Company to proceed with the plans for construction of the mine, subject to obtaining the necessary permits and approvals.

Mineable reserves consist of the following:

Mineable Reserves	Gold			Silver	
	mt	g/t	Oz (000)	g/t	Oz (000)
Proven	2.22	6.62	472	3.36	240
Probable	2.65	3.78	322	2.08	177
Proven and Probable	4.87	5.08	794	2.66	416

The initial mine life is expected to be approximately six years with annual gold production of approximately 150,000 ounces for the first four years. Cash cost per tonne of ore processed and per ounce of gold equivalent produced is expected to be approximately US\$18 per tonne or US\$116 per ounce.

Sustaining capital over the life of the project is expected to be approximately US\$6 million and closure and rehabilitation costs are expected to be approximately US\$9 million.

The project has an after tax payback period of approximately two years and an after tax net present value at a 9% discount rate of approximately US\$66 million using a gold price of US\$430 per ounce and an exchange rate of 1 Euro equals US\$1.30.

### Environmental Impact Assessment

An Environmental Impact Assessment ("EIA") was submitted to the Ministry of Environment and Waters ("MOEW") in April 2005. The document has been prepared in accordance with both Bulgarian legislation and European Union guidelines.

The EIA was approved for content and released for the second part of the review process in July 2005, which involves the presentation of the EIA to the Krumovgrad Municipality and regional authorities for review for a 30 day period. At the end of this review period, a public hearing is held. The public hearing is planned for August 2005. Results of the public hearing are incorporated into the EIA which is then resubmitted to the MOEW for final approval. This final review can take up to three months.

### EXPLORATION

#### *Back River Project*

On February 18, 2005, the Company purchased an option to acquire a 60% interest in several properties located in Nunavut. The most important of these properties comprise the George Lake and Goose Lake properties. Updated resource estimates are currently being undertaken.

The Company is mid way through its \$9 million exploration program for 2005 having completed over 8,000 metres of diamond drilling to date. The objectives for the year are to better define the resources at the Goose Lake and George Lake gold deposits through an 18,000 metre drilling program; to recompile and audit the entire Back River database; to refine and improve the understanding of the key ore controls; and to implement the Company's quality assurance protocols.

In order to earn a 60% interest in the project, the Company must incur cumulative expenditures of \$25 million by August 31, 2006. The Company can extend the earn-in period to August 31, 2008 by increasing the cumulative earn-in requirement by \$3 million, provided the Company has incurred cumulative expenditures of \$15 million by August 31, 2006.

As at June 30, 2005, the Company has eligible expenditures of approximately \$14 million.

#### *Other Exploration Properties*

The Company plans to continue the exploration of properties in the Balkans and other regions for gold resources and is evaluating other mining properties for possible acquisition.

## INVESTMENTS

### Summary

During the three and six month period ended June 30, 2005, the Company realized \$0.2 million and \$2.5 million in pre-tax gains on the disposition of \$3.0 million and \$6.0 million of marketable securities, respectively.

During the three and five month period ended June 30, 2004, the Company realized net gains totaling \$16.1 million and \$41.1 million on sales which provided proceeds of \$34.6 million and \$64.2 million, respectively.

In accordance with the Company's accounting policy, any decline in the market value of an individual security investment, which it believes is other than temporary, is written down to current market value. The Company has recorded a \$1.6 million write-down for the six month period ended June 30, 2005.

As at June 30, 2005, the portfolio had a market value of approximately \$160 million. The four largest positions as at June 30, 2005, at market, were: Tahera Diamond Corporation – \$30 million; Major Drilling Group International Inc. – \$27 million; Miramar Mining Corporation – \$24 million, and Cambior Inc. – \$22 million. In the aggregate these four investments represent 64% of the total market value of the portfolio.

## FINANCIAL RESULTS

### Summary

The Company reported a net loss of \$3.8 million or \$0.07 per share and \$5.3 million or \$0.10 per share for the three and six months ended June 30, 2005 compared with a net loss of \$10.7 million or \$0.20 per share and net income of \$9.3 million or \$0.19 per share for the three and five months ended June 30, 2004, respectively, as summarized below:

### Operations Summary

*Cdn\$ million*

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
Revenue from mining operations				
Gold/copper concentrate	\$ 10.8	\$ 10.0	\$ 22.4	\$ 10.0
Cost of sales	9.4	8.7	21.2	8.7
	1.4	1.3	1.2	1.3
Net investment revenue	0.2	14.6	0.9	39.7
Other income	0.1	0.1	0.3	0.1
Net revenue	1.7	16.0	2.4	41.1
Expenses	(5.8)	(33.6)	(8.1)	(34.3)
Income taxes recovery	(0.3)	(6.9)	(0.4)	(2.5)
Net Income (loss)	\$ (3.8)	\$ (10.7)	\$ (5.3)	\$ 9.3
Net income (loss) per share				
Basic and fully diluted	\$ (0.07)	\$ (0.20)	\$ (0.10)	\$ 0.19
Total assets	\$308.2	\$297.9	\$308.2	\$297.9
Total long-term liabilities	27.2	12.5	27.2	12.5

*The Company began consolidating the results from the mining operations on April 1, 2004, the effective date of conversion from an investment company to a mining company.*

## **Net Revenue**

Net revenue of \$1.7 million and \$2.4 million for the three and six months ended June 30, 2005 resulted from the following:

- (1) the financial results of the mining business for the three and six month period ending June 30, 2005 which had an operating gain of \$1.4 million and \$1.2 million on the sale of 14,478 and 29,702 dry tonnes of gold/copper concentrate, respectively, and
- (2) gains on the sale of investments for the three and six month period ended June 30, 2005 of \$0.2 million and \$0.9 million net of investment write-downs of \$1.6 million, respectively.

The Company consolidated the results of the mining business on April 1, 2004; consequently in the prior year comparable periods results from the mining operation are included only for the three months ended June 30, 2004. For the three months ended June 30, 2004 the mining business had an operating gain of \$1.3 million and net gains on sales of investments were \$14.6 million. For the five months ended June 30, 2004, net gains on sales of investments were \$39.6 million.

## **Expenses**

### *Administrative and other expenses*

Administrative costs were \$2.0 million and \$3.5 million for the three and six months ended June 30, 2005 respectively, compared to \$2.4 million and \$2.5 million incurred for the prior comparable periods.

Administrative costs were up from the first quarter due to an increase in business development activities.

### *Stock Based Compensation Expense*

Stock compensation expense includes costs associated with granting stock options and costs related to the Company's Employee and Director Deferred Share Unit ("DSU") Plans.

The value of the stock options granted during the three and six month period was \$0.4 million and \$1.6 million, respectively, calculated using a Black-Scholes model. These costs are charged to operations over their three year vesting period.

During the three and six month period, stock option expense was \$0.7 million and \$1.5 million, respectively. In the three and six months ended June 30, 2005, \$0.2 million and \$0.4 million were recognized in the accounts related to the grant of DSU's. The DSU's vest immediately, are expensed at the time of grant and the outstanding liability is adjusted at each period end date to fair value being the market price of the underlying shares.

In the three month period ended June 30, 2004, the value of stock options granted was \$8.1 million and \$0.7 million was recognized as a stock option expense.

### *Exploration Expense*

Exploration expense incurred for the three and six months ended June 30, 2005 was \$1.0 million and \$1.4 million respectively. Exploration during the period was centered on the Balkans.

Exploration activities at Back River and Krumovgrad aggregated \$6.4 million and \$8.9 million for the three and six months ended June 30, 2005 and have been capitalized to mineral properties.

### *Foreign Exchange*

Expenses include the cost of fluctuations in foreign currency rates against the Canadian dollar. The majority of monetary assets and liabilities related to the mining operations are not in Canadian dollars, hence fluctuations in the monetary rates result in gains and losses when translated to Canadian currency.

## Cash Flow Summary

Cdn\$ million

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
Cash provided from (used) in				
Operating activities	\$ (0.8)	\$12.0	<b>\$ (2.9)</b>	\$(16.5)
Property, plant and equipment	(14.8)	(7.4)	<b>(39.4)</b>	(7.4)
Investment and other transactions	(4.0)	38.5	<b>(3.7)</b>	53.8
Financing activities	\$11.7	\$19.0	<b>\$ 7.0</b>	\$ 62.7
	<b>\$ (7.9)</b>	<b>\$62.1</b>	<b>\$(39.0)</b>	<b>\$ 92.6</b>

## Operating Activities

For the three and six months ended June 30, 2005, the Company had an operating cash requirement of \$0.8 million and \$2.9 million, respectively.

Net income (loss) adjusted for non cash items absorbed \$1.5 million in both the three and six month periods, whereas changes in non cash working capital provided \$0.7 million primarily from the increased level of accounts payable balances in the quarter, versus requiring \$1.4 million over the six months period as a result of higher levels of accounts receivable. Non cash working capital will continue to fluctuate with the timing of concentrate sales and the level of development activities in the period.

## Capital & Other Expenditures

During the three and six month period ended June 30, 2005, the Company invested \$14.8 million and \$39.4 million, respectively, in projects and capital expenditures.

Cdn\$ million

Project Expenditures to date	Current Quarter	YTD <sup>(1)</sup>	Project from date of acquisition <sup>(1)</sup>
Back River Exploration (Nunavut, Canada)	\$ 3.8	\$ 4.3	\$ 4.3
Chelopech (Bulgaria)	8.8	13.7	40.7
Krumovgrad (Bulgaria)	1.7	3.7	15.3
Corporate	0.5	0.8	0.8
Total	<b>\$14.8</b>	<b>\$22.5</b>	<b>\$61.1</b>

(1) Excludes \$7.8 million and \$9.1 million relating to acquisition costs of Krumovgrad and Back River, respectively.

At Chelopech, \$8.8 million (US\$7.1 million) and \$13.7 million (US\$11.1 million) was spent during the three and six months ended June 30, 2005, respectively, and \$40.7 million (US\$32.3 million) has been spent from the date of acquisition as follows:

US\$ millions

Project	Current Quarter	YTD	Project from date of acquisition
Establishing Reserves	\$0.1	\$ 0.3	\$ 2.4
Decline	0.4	0.9	5.1
Mine development	3.1	4.1	15.5
Mill development	0.5	0.6	1.4
Autoclave Definitive Feasibility Study	2.7	4.7	5.6
Other	0.3	0.5	2.3
Total	<b>\$7.1</b>	<b>\$11.1</b>	<b>\$32.3</b>

At Krumovgrad, \$1.7 million (US\$1.4 million) and \$3.7 million (US\$3.0 million) was spent during the three and six months ended June 30, 2005, respectively, and \$15.3 million (US\$11.8 million) has been spent from the date of acquisition as follows:

US\$ millions

Project	Current Quarter	YTD	Project from
			date of acquisition
Reserve definition drilling	\$0.2	\$0.4	\$ 4.5
Definitive feasibility study	0.6	1.3	3.2
Other	0.6	1.3	4.1
<b>Total</b>	<b>\$1.4</b>	<b>\$3.0</b>	<b>\$11.8</b>

As at June 30, 2005, the Company has capitalized the following costs:

Cdn\$ millions

Cost of Property, Plant and Equipment	Acquisition	Project	Total
	Costs	Expenditures	
Back River Exploration (Nunavut, Canada)	\$ 9.1	\$ 5.1	\$ 14.2
Chelopech (Bulgaria)	20.3	40.7	61.0
Krumovgrad (Bulgaria)	30.0	15.3	45.3
Corporate	–	0.8	0.8
<b>Total</b>	<b>\$59.4</b>	<b>\$61.9</b>	<b>\$121.3</b>

### Financing Activities

During the current quarter, the Company completed a US\$10.0 million financing with the European Bank for Reconstruction and Development. The US\$10.0 million loan includes US\$3.0 million to be used for environmental remediation purposes and the remainder is to be used for Chelopech mine redevelopment. The loan bears interest at LIBOR plus 1.9% and is repayable in eight semi-annual installments commencing in June 2007.

During the first quarter of 2005, the Company repaid the US\$4.0 million note payable which was assumed as part of the acquisition of the Bulgarian mining assets.

### Liquidity

The Company has cash and marketable securities with a market value in excess of \$190 million as at June 30, 2005. These funds are more than sufficient to fund the planned capital expenditures of the Company's mining activities.

The Company has contractual obligations due within the next three years as follows:

(000's)

Contractual Obligations	Payments Due by Period		
	Total	Less than 1 year	1 – 3 Years
Long term debt	11,914	–	3,064
Long-term leases	810	751	–
<b>Total contractual obligations</b>	<b>12,724</b>	<b>751</b>	<b>3,064</b>

### Financial Position

As at June 30, 2005, the Company had working capital of \$55.7 million and investments in publicly tradeable securities with a market value of \$160 million which equates to \$4.01 per share. In addition, the Company had mining assets with a book value totaling \$111.2 million offset by related long term liabilities of \$27.2 million.

## QUARTERLY INFORMATION

The Company's financial results for the three months ended June 30, 2005 reflect the activities of an operating mining company and the periods from the third quarter of 2003 to the end of the first quarter of 2004 reflect the results of an investment management company only.

### Quarterly Summary

(Cdn\$ millions)

	Q2 05	Q1 05	Q4 04	Q3 04	Q2 04	Q1 04	Q4 03	Q3 03
Gold/copper								
concentrate sales	10.8	11.6	11.4	4.7	10.0	-	-	-
Cost of Sales	9.4	11.7	13.2	5.0	8.7	-	-	-
	1.4	(0.1)	(1.8)	(0.3)	1.3	-	-	-
Net Investment Revenue	0.3	0.8	10.9	0.8	14.6	25.2	16.0	15.0
Net Revenue	1.7	0.7	9.1	0.5	15.9	25.2	16.0	15.0
Expenses	(5.8)	(2.3)	(7.6)	(4.0)	(4.3)	(0.8)	(4.1)	(3.5)
Termination fee	-	-	-	-	(29.2)	-	-	-
Income taxes	0.3	0.1	(0.2)	0.8	6.9	(4.4)	(3.5)	(2.4)
Net income (loss)	(3.8)	(1.5)	1.3	(2.7)	(10.7)	20.0	8.4	9.1
Net income (loss)								
per share	(0.07)	(0.03)	0.03	(0.05)	(0.20)	0.48	0.22	0.26

### CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates represent estimates that are highly uncertain and could materially impact the financial statements.

#### Capital Assets

Capital assets represent 36% of total assets at June 30, 2005. The application of accounting policies for these assets has a material impact on the Company's results. Amortization expense is based on the estimated useful lives of these assets. The carrying values of mining properties are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment assessments are based on estimates of future cash flows, which include: the quantity of mineral reserves; future metal prices and future operating and capital costs to mine and process our reserves.

#### Asset Retirement Obligations

Mining, development and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company has recorded a liability for future costs related to these regulations with a corresponding adjustment to the carrying amount of the related assets.

Significant judgments and estimates are made when determining the nature and costs associated with asset retirement obligations. Changes in the underlying assumptions used to estimate the obligation as well as changes to environmental laws and regulations could cause material changes in the expected cost and the fair value of asset retirement obligations.

## **RISKS AND UNCERTAINTIES**

The Company is subject to a number of risks and uncertainties as a result of operations, including without limitation the following risks:

### **Political risk**

Dundee conducts mining and development activities in several countries. Mining investments are subject to the risks normally associated with any conduct of business including: uncertain political and economic environments; changes in laws or policies of particular countries; taxation; and delays obtaining or the inability to obtain necessary government permits.

### **Government laws and regulations**

Dundee's mining operations and exploration activities are subject to extensive laws and regulations governing the protection of the environment, waste disposal, worker health and safety and mine development. Dundee has and expects to in the future comply with such laws and regulations. Future changes in applicable laws, regulations and permits or changes in their enforcement or regulatory interpretation could have an adverse impact on the costs of compliance and therefore adversely impact the Company's financial condition or results of operations. The costs and delays associated with compliance with these laws and regulations could stop the Company from proceeding with the development of a project or the operation or further development of a project.

### **Company specific factors**

#### *Development Projects*

Dundee's ability to sustain or increase our present levels of production is dependent in part on the successful development of new ore bodies and/or expansion of existing mining operations. The economic feasibility of development projects is based upon many factors, including: the accuracy of reserve estimates; estimated metallurgical recoveries; estimated capital and operating costs of such projects; foreign currency exchange rates; and future gold and silver prices. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits, and the acquisition of satisfactory surface or other land rights.

Development projects have no operating history upon which to base estimates of future cash flow. It is possible that actual costs and economic returns may differ materially from our estimates or that we could fail to obtain the governmental approvals necessary for the operation of a project. It is not unusual in the mining industry for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated.

### **Exploration**

Exploration is highly speculative in nature. Exploration projects involve many risks and are frequently unsuccessful. Once a site with gold or other precious metal mineralization is discovered, it may take several years from the initial phases of drilling until production is possible. Substantial expenditures are required to establish proven and probable reserves and to construct mining and processing facilities. As a result of these uncertainties, there is no assurance that current or future exploration programs will be successful and result in the expansion of current production reserves.

### **Production and operating cost targets**

Dundee prepares estimates of future production and total cash costs of production for its operations. No assurance can be given that such estimates will be achieved. Failure to achieve production or total cash cost estimates could have an adverse impact on our future cash flows, earning, and financial condition.

### **Reserve risk**

Mineral reserves and mineral resources are estimates, and no assurance can be given that the indicated content of metal will be produced. Fluctuations in the price of copper and gold may render mineral reserves containing relatively low grades of mineralization uneconomic.

Estimated reserves may have to be recalculated based on actual production experience. Market price fluctuations of copper and gold, as well as increased production costs or reduced recovery rates may render the present reserves unprofitable to develop at a particular site or sites for periods of time. This could cause a reduction in total reserves, which could have a negative impact on financial results.

### **Commodity price risk**

The revenue for the Company is significantly impacted by the market prices of gold and copper.

Concentrate contract prices are based on the prevailing metal prices on the date of final price determination. This date is contractually established between the Company and its customers and can be anywhere between two to three months after title transfer and revenue recognition.

The Company has not entered into derivative instruments to hedge against these risks.

### **Foreign currency risk**

The reporting currency of the Company is the Canadian dollar. The functional currency of the Company's wholly owned, integrated, mining subsidiary is the US dollar, however, it also operates using the Euro and the Bulgarian Leva (which is fixed to the Euro) and, as such, may be affected by fluctuations in foreign exchange rates. The Company's sales are denominated in US dollars, while a significant percentage of its expenses are denominated in non-US dollars. The Company monitors these currencies but has not entered into derivative instruments to hedge against this risk.

### **Credit risk**

The Company is subject to the credit risk of its customers. The Company receives a provisional payment on its sales at the time title to the concentrate transfers to its customers. For the majority of contracted sales, provisional payments are between 90% and 95% of the contract based on provisional metal prices and assay results. It monitors this risk and does not consider the likelihood of a material loss to be significant.

### **OTHER**

The financial information has been prepared in accordance with Canadian GAAP and is reported in Canadian dollars. Additional Company information, including the Company's annual report and annual information form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com). Certain non-GAAP measures are discussed in this MD&A which are clearly disclosed as such.

Management accepts responsibility for the reliability and timeliness of the information disclosed and confirms the existence and effectiveness of the systems of internal control that are in place to provide this assurance. The Board assesses the integrity of the public financial disclosures through the oversight of the Audit Committee.

Certain statements included in this MD&A and the accompanying financial statements are forward-looking statements. Forward-looking statements are frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices and other factors described above and in the Company's most recent annual information form under the heading "Risks Factors" which has been filed electronically by means of the Canadian Securities Administrators' website located at [www.sedar.com](http://www.sedar.com). The Company disclaims any obligation to update or revise any forward-looking statements if circumstances or management's estimates or opinions should change. The reader is cautioned not to place undue reliance on forward-looking statements.

## Consolidated Balance Sheets

As at June 30, 2005 and December 31, 2004  
(unaudited in thousands of Cdn. dollars)

	June 30, 2005	Dec. 31, 2004
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>\$ 30,801</b>	\$ 69,828
Accounts receivable	<b>9,997</b>	6,597
Inventories (note 2)	<b>11,840</b>	11,768
Prepaid expenses	<b>2,932</b>	2,861
Income tax recoverable (note 7b)	<b>16,428</b>	13,432
	<b>71,998</b>	104,486
<b>Future income tax asset</b>	<b>2,790</b>	2,812
<b>Investments (market value \$159,572; December 2004 – \$174,286) (note 3)</b>	<b>122,221</b>	117,640
<b>Property, plant &amp; equipment (note 4)</b>	<b>111,152</b>	73,706
	<b>\$308,161</b>	\$298,644
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<b>\$ 15,501</b>	\$ 12,168
Current portion of long-term debt (note 5)	<b>751</b>	5,696
	<b>16,252</b>	17,864
<b>Long-Term Liabilities</b>		
Long-term debt (note 5)	<b>11,973</b>	251
Asset retirement obligations (note 8)	<b>8,783</b>	8,786
Long-term compensation (note 10)	<b>3,185</b>	2,805
Future income tax liability	<b>3,287</b>	530
	<b>27,228</b>	12,372
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 9)	<b>189,971</b>	189,971
Contributed surplus (note 9)	<b>2,620</b>	1,072
Retained earnings	<b>72,090</b>	77,365
	<b>264,681</b>	268,408
	<b>\$308,161</b>	\$298,644

Contingent liabilities and commitments (note 6)

See accompanying notes to the unaudited consolidated financial statements.

## Consolidated Statements of Operations

For the three and six months ended June 30, 2005  
(unaudited, in thousands of Cdn. dollars, except per share amounts)

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
<b>Mining operations</b>				
Gold/copper concentrate revenue	\$10,805	\$ 10,033	<b>\$22,440</b>	\$10,033
Cost of sales	9,467	8,743	<b>21,227</b>	8,743
	1,338	1,290	<b>1,213</b>	1,290
<b>Investment income</b>				
Dividends, interest and other income	129	72	<b>250</b>	136
Net realized gain on sale of investments	185	16,069	<b>2,519</b>	41,118
Investments written-down	–	(1,495)	<b>(1,629)</b>	(1,495)
	314	14,646	<b>1,140</b>	39,759
	1,652	15,936	<b>2,353</b>	41,049
<b>Expenses</b>				
Administrative and other expenses	1,986	2,371	<b>3,484</b>	2,525
Stock based compensation expense	892	700	<b>1,930</b>	700
Exploration expense	1,036	–	<b>1,372</b>	–
Depreciation	120	97	<b>208</b>	97
Financing costs	316	256	<b>614</b>	258
Foreign exchange loss	1,409	929	<b>477</b>	929
Management and performance fees	–	29,229	–	29,791
	5,759	33,582	<b>8,085</b>	34,300
<b>Income (loss) before income taxes</b>	(4,107)	(17,646)	<b>(5,732)</b>	6,749
Provision for (recovery of) income taxes (note 7a)				
Current	(2,796)	(3,530)	<b>(3,114)</b>	(1,430)
Future	2,453	(3,395)	<b>2,657</b>	(1,068)
	(343)	(6,925)	<b>(457)</b>	(2,498)
<b>Net income (loss) for the period</b>	<b>\$ (3,764)</b>	<b>\$(10,721)</b>	<b>\$ (5,275)</b>	<b>\$ 9,247</b>
<b>Net income (loss) per share</b>				
<b>Basic and fully diluted</b>	<b>\$ (0.07)</b>	<b>\$ (0.20)</b>	<b>\$ (0.10)</b>	<b>\$ 0.19</b>

## Consolidated Statements of Retained Earnings

For the three and six months ended June 30, 2005  
(unaudited, in thousands of Cdn. Dollars)

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
<b>Balance at beginning of period,</b>				
<b>as previously stated</b>	\$75,854	\$ 87,737	<b>\$77,365</b>	\$67,769
Net Income (loss)	(3,764)	(10,721)	<b>(5,275)</b>	9,247
Balance at end of period	\$72,090	\$ 77,016	<b>\$72,090</b>	\$77,016

See accompanying notes to the unaudited consolidated financial statements.

## Consolidated Statements of Cash Flow

For the three and six months ended June 30, 2005  
(unaudited, in thousands of Cdn. dollars)

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (3,764)	\$ (10,721)	<b>\$ (5,275)</b>	\$ 9,247
Non cash charges (credits) to earnings				
Depreciation	1,447	1,436	<b>2,722</b>	1,436
Stock based compensation expense	892	700	<b>1,930</b>	700
Shares issued on termination of contract	–	27,842	–	27,842
Gain on sale of investments	(185)	(16,069)	<b>(2,519)</b>	(41,118)
Write down of investments to market value	–	1,495	<b>1,629</b>	1,495
Future income taxes	26	(10,949)	<b>(214)</b>	(11,064)
Other non-cash charges	29	338	<b>211</b>	338
Changes in non-cash working capital			–	
Decrease (increase) in accounts receivable	(3,985)	19,780	<b>(3,400)</b>	1,737
Increase in inventories	(276)	(681)	<b>(910)</b>	(681)
Decrease (increase) in other assets	137	(2,150)	<b>(449)</b>	(2,117)
Increase (decrease) in accounts payable	4,831	989	<b>3,333</b>	(4,312)
<b>Net cash (used in) operating activities</b>	(848)	12,010	<b>(2,942)</b>	(16,497)
<b>INVESTING ACTIVITIES</b>				
Increase in investments	(6,999)	(843)	<b>(9,689)</b>	(15,145)
Proceeds on sale of investments	2,989	34,630	<b>5,998</b>	64,180
Cash obtained on consolidation of subsidiary	–	4,730	–	4,730
Acquisition of mineral properties	–	–	<b>(16,819)</b>	–
Exploration and development costs capitalized	(9,023)	–	<b>(14,138)</b>	–
Acquisition of plant and equipment	(5,731)	(7,358)	<b>(8,373)</b>	(7,358)
<b>Net cash provided (used in) by investing activities</b>	(18,764)	31,159	<b>(43,021)</b>	46,407
<b>FINANCING ACTIVITIES</b>				
Issue of common shares	–	18,286	–	62,021
Proceeds of debt financing	11,706	675	<b>11,706</b>	675
Debt retired	–	–	<b>(4,770)</b>	–
<b>Net cash provided by financing activities</b>	11,706	18,961	<b>6,936</b>	62,696
<b>Increase (decrease) in cash and equivalents</b>	(7,906)	62,130	<b>(39,027)</b>	92,606
<b>Cash and equivalents at beginning of period</b>	38,707	53,652	<b>69,828</b>	23,176
<b>Cash and equivalents at end of period</b>	\$30,801	\$115,782	<b>\$30,801</b>	\$115,782
<b>Supplemental Disclosures</b>				
Interest paid	\$ 208	\$ 3	<b>\$ 443</b>	\$ 5
Taxes paid	\$ –	\$ 3,619	<b>\$ –</b>	\$ 8,161

See accompanying notes to the unaudited consolidated financial statements.

# Notes to unaudited Consolidated Financial Statements

For the periods ended June 30, 2005 and 2004 (Unaudited).

## 1. Nature of Operations and Basis of Presentation

Dundee Precious Metals Inc. ("Dundee" or the "Company") is an operating mining company engaged in the acquisition, exploration, development of and production from mining properties. The Company owns, a gold/copper mine (Chelopech), a development gold project (Krumovgrad) located in Bulgaria and a series of exploration licenses in the Balkans and Nunavut, Canada.

Effective April 1, 2004, the Company converted from a closed-end investment company to an operating mining company, as a result of the acquisition of mining operations in Bulgaria. The results have been consolidated since the effective date of conversion. The Company changed its year-end from January 31 to December 31 during 2004.

Evaluation work continues at both Chelopech and Krumovgrad. These properties require the commitment of significant funds to develop and expand production. On July 5, 2005, the Company's Board of Directors approved the expenditure of US\$75 million to construct the mine at Krumovgrad.

The unaudited interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. The accompanying unaudited consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the eleven months ended December 31, 2004, since these statements do not contain all disclosures required by Canadian GAAP for annual financial statements. These unaudited interim consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

## 2. Inventories

(in thousands of Cdn. dollars)

As at	June 30, 2005	Dec. 31, 2004
Gold / copper concentrate	\$ 7,051	\$ 8,322
Spare parts & supplies	4,789	3,446
	\$11,840	\$11,768

### 3. Investments

(in thousands of Cdn. dollars)

The following are the details of the net changes in investments for the periods indicated.

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
Investments at cost, beginning of period	\$118,026	\$110,247	<b>\$117,640</b>	\$150,949
Cost of investments purchased during the period	6,999	843	<b>9,689</b>	15,145
Cost of investments sold during the period				
Proceeds from sales	(2,989)	(34,630)	<b>(5,998)</b>	(64,180)
Net realized gain on sale of investments	185	16,069	<b>2,519</b>	41,118
Investments written down	-	(1,495)	<b>(1,629)</b>	(1,495)
Investment in wholly-owned subsidiary which was consolidated effective April 1, 2004	-	-	-	(50,503)
Investments at cost, end of period	\$122,221	\$ 91,034	<b>\$122,221</b>	\$ 91,034

### 4. Property Plant and Equipment

(in thousands of Cdn. dollars)

As at	June 30, 2005		Dec. 31, 2004	
	Cost	Accumulated depreciation & depletion	Net Book Value	Net Book Value
<b>Mineral properties</b>				
Chelopech	\$ 18,313	\$ 2,338	\$ 15,975	\$10,226
Krumovgrad	42,484	63	42,421	31,348
Back River	14,224	-	14,224	-
	75,021	2,401	72,620	41,574
<b>Buildings, plant and equipment</b>				
Chelopech	42,626	7,442	35,184	29,814
Krumovgrad	2,792	223	2,569	2,252
Corporate	832	53	779	66
	46,250	7,718	38,532	32,132
	\$121,271	\$10,119	\$111,152	\$73,706

During the six month period ended June 30, 2005, the Company settled a contingent liability, as described in note 6(b), which arose on the acquisition of the Krumovgrad mineral property. In connection therewith, approximately \$7.8 million was capitalized to the Krumovgrad mineral property.

During the six month period ended June 30, 2005, the Company purchased an option to earn a 60% interest in certain exploration properties (Back River) located in Nunavut. Approximately \$14.2 million has been capitalized to mineral properties reflecting the acquisition price of the option agreement and exploration activities from the date of acquisition.

## 5. Long-term debt

(in thousands of Cdn. dollars)

As at	June 30, 2005	Dec. 31, 2004
Long-term debt	\$11,914	\$4,808
Long-term liabilities	810	1,139
	12,724	5,947
Less: current portion	751	5,696
	\$11,973	\$ 251

### a) Long-term debt

During the three month period ended June 30, 2005 a wholly owned subsidiary, Chelopech Mining EAD, drew down the US\$10.0 (CAD \$12.3) million debt facility with the European Bank for Reconstruction and Development. The loan is secured by the Chelopech Mine asset and is guaranteed by the Company. It bears interest at LIBOR plus 1.9% and is repayable in eight equal semi-annual installments commencing in June 2007.

During the six month period ended June 30, 2005, the Company repaid a US\$4.0 million note payable plus interest accrued as part of a settlement of a contingent liability as described in note 6(b). The note related to the acquisition of the Krumovgrad mineral property bore interest at LIBOR plus 1% and was repayable in equal quarterly amounts of US\$0.8 million commencing on December 31, 2004.

### b) Long-term liabilities

(in thousands of Cdn. dollars)

As at	June 30, 2005	Dec. 31, 2004
Long-term leases	\$751	\$1,057
Other	59	82
	\$810	\$1,139

Lease liabilities are effectively secured by the rights to the leased assets of the Bulgarian operations and would revert to the lessor in the event of default. The leases bear an effective interest rate of 8.42%.

## 6. Contingent liabilities and commitments

### a) Concession obligations

The Company has committed to make capital investments in the underground facilities of the Chelopech mine in accordance with the terms of the concession contract with the Republic of Bulgaria. As at December 31, 2004, these commitments aggregated US\$14.5 million to be incurred over the period 2005 to 2008 as follows:

(in millions of US dollars)

2005	4.0
2006	4.3
2007	3.3
2008	2.9

As at June 30, 2005, the Company has spent US\$18.1 million in satisfaction of the above concession obligations.

In addition, a concession fee of 1.5% of the current value of the ore extracted from the Chelopech mine is payable to the Republic of Bulgaria. During the period from January 1, 2004 to December 31, 2010, this fee is reduced by 50% subject to a minimum payment of US\$0.6 million per annum. The balance of the concession fee is to be deposited into an escrow account which will be used to fund environmental risk management and remediation costs. The accumulated balance in the environmental escrow account of US\$309,000 was netted against the asset retirement obligation.

**b) Contingent payment on acquisition of Krumovgrad and future royalty obligations**

During the six month period ended June 30, 2005, the Company settled for an aggregate of US\$10.5 million the following:

- (i) US\$12.5 million contingent liability,
- (ii) 1% royalty on future gross revenue from certain grass roots exploration projects, and
- (iii) US\$4 million note payable plus accrued interest.

**c) Gold/copper concentrate sales**

The Company has signed contracts with some of its clients with the commitment to ship the following minimum quantities of gold / copper concentrate in the following years:

Dry metric tonnes

2005	80,000
2006	90,000
2007	60,000
	230,000

The Company has sales contracts with four customers each of which account for greater than 10% of revenues. The basis of mining operations as a concentrate producer at Chelopech at the planned levels of production are dependent on these sales contracts.

**7. Income Taxes**

*(in thousands of Cdn. dollars)*

- a) The reconciliation of the expected combined federal and provincial statutory income tax rates to the effective tax rate on earnings is as follows:

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
<b>Combined federal and provincial statutory income tax rates</b>				
	<b>36.12%</b>	<b>36.12%</b>	<b>36.12%</b>	<b>36.12%</b>
Income tax at statutory rates	\$(1,483)	\$(6,374)	<b>\$(2,071)</b>	\$ 2,438
Adjusted for the effect of:				
Non-taxable portion of capital gains	(33)	(1,436)	<b>(455)</b>	(5,821)
Investments written down	-	540	<b>294</b>	540
Lower tax rate on foreign earnings	900	345	<b>2,222</b>	345
Other, net	273	-	<b>(447)</b>	-
<b>Provision for (recovery of) income taxes</b>				
	<b>\$ (343)</b>	<b>\$(6,925)</b>	<b>\$ (457)</b>	<b>\$(2,498)</b>

- b) Canada Revenue Agency ("CRA") is in the process of reassessing the Company's February 1, 1996 to January 31, 2004 taxation years.

## 8. Asset Retirement Obligations

Asset retirement obligations as at June 30, 2005 have been reflected on the balance sheet at \$8.8 million net of accumulated cash in escrow of \$0.4 million, to reflect the net present value of the Chelopech mine site closure obligations. During the three and six month period ending June 30, 2005, accretion expense of \$0.2 million and \$0.4 million was recognized in each period respectively.

The anticipated cash out flows of the asset retirement obligations have been estimated using current prices at the time the obligation was recognized and discounted using a real interest rate of 8% after inflation growth of 3% per annum.

## 9. Shareholders' Equity

(in thousands of Cdn. dollars)

### a) Common shares

#### Authorized

Unlimited common shares without par value

#### Issued

	6 Months Ended June 30, 2005		11 Months Ended Dec. 31, 2004	
	Number	Amount	Number	Amount
<b>Balance at beginning of period, including share purchase warrants, restated</b>	<b>53,639,675</b>	<b>\$189,971</b>	37,767,405	\$ 98,917
Shares issued on exercise of warrants	-	-	8,747,070	43,735
Value of unexercised and expired warrants				
Transferred to contributed surplus.	-	-	-	(88)
Shares issued in connection with the termination of the investment management management contract	-	-	4,625,000	27,842
Shares issued in connection with the exercise of the option	-	-	2,500,000	18,286
Shares issued for services rendered	-	-	500,000	3,050
Shares purchased and cancelled	-	-	(499,800)	(1,771)
<b>Balance at end of period</b>	<b>53,639,675</b>	<b>\$189,971</b>	53,639,675	\$189,971

The weighted average number of shares used to calculate net income per share during the three and six month period ended June 30, 2005 was 53,639,675 (June 30, 2004 – 52,882,607 and 49,193,671 for the three and five month period then ended.).

## b) Contributed Surplus

The following are the details of the net changes for the periods indicated:

	<b>6 Months Ended June 30, 2005</b>	11 Months Ended Dec. 31, 2004
Balance at beginning of period	<b>\$ 1,072</b>	\$ 456
Cost of unexercised warrants at expiry	–	88
Stock based compensation	<b>1,548</b>	2,034
Cost of shares purchased and cancelled in excess of book value	–	(1,506)
Balance at end of period	<b>\$ 2,620</b>	\$ 1,072

## c) Stock Options

Pursuant to the Company's Stock Option plan, the exercise price of the option cannot be less than the market price of the common stock on the date the option is granted. Options vest over a three year period and expire five years after the date of grant.

Total stock options outstanding for the following periods:

	<b>6 Months Ended June 30, 2005</b>		11 Months Ended Dec. 31, 2004	
	<b>Options (Number)</b>	<b>Weighted Avg. Exercise Price</b>	Options (Number)	Weighted Avg. Exercise Price
Balance at beginning of period	<b>4,460,000</b>	<b>\$7.00</b>	–	\$ –
Granted	<b>570,000</b>	<b>\$8.43</b>	4,470,000	7.00
Exercised	–	–	–	–
Cancelled or expired	<b>(126,667)</b>	<b>\$7.63</b>	(10,000)	7.00
Balance at end of period	<b>4,903,333</b>	<b>\$7.15</b>	4,460,000	\$7.00

As at June 30, 2005 there are 1,416,111 exercisable options at an exercise price of \$7.00.

## 10. Long-term Compensation

In the three months ended June 30, 2005 there was 165,000 options granted. The fair value of the options granted was estimated using a Black Scholes option pricing model with the following assumptions:

Risk free interest rate	3.38%
Expected life in years	5
Expected volatility	30.30%
Dividends per share	–

The estimated value of the options granted will be recognized over the vesting period. As at June 30, 2005 there is \$6.3 million remaining to be charged to income in future periods relating to stock option grants.

The Company has established a Deferred Share Unit ("DSU") Plan for directors and employees. The DSU's are phantom shares which mirror the value of the Company's publicly-traded common shares.

Under the Employee DSU Plan, grants to employees of the Company will be determined by the Board of Directors or the Compensation Committee in lieu of a cash bonus. The DSU's vest immediately and are redeemable in cash on the date the employee ceases to be employed by the Company.

Under the Director DSU Plan, effective January 1, 2005, directors will receive a portion of their annual compensation in the form of DSU's. The DSU's vest immediately and are redeemable in cash on the date the director ceases to be a director of the Company.

During the three month period ended June 30, 2005, 15,216 DSU's were issued at \$8.05 each and \$122,488 was charged to earnings in relation to the issuance of the DSU's. The DSU issuance in prior periods was marked to market at June 30, 2005 and \$24,547 was charged to earnings as a result.

## 11. Segment Information

(in thousands of Cdn. dollars)

The Company has two basic segments, a corporate and investment business, and a mining, mine development and exploration operation. The Company's mining operations are managed on a regional basis. The two regional business units are Bulgaria and Canada.

The following table summarizes the relative information for following periods and as at the dates disclosed.

Ended June 30,	3 Months 2005	3 Months 2004	6 Months 2005	5 Months 2004
Net revenue				
Mining operations	\$ 1,338	\$ 1,290	\$ 1,213	\$ 1,290
Investments	314	14,646	1,140	39,759
	\$ 1,652	\$ 15,936	\$ 2,353	\$ 41,049
Net income (loss)				
Mining operations	\$ 302	\$ 1,289	\$ (59)	\$ 1,289
Investments	314	(14,582) <sup>(1)</sup>	1,140	9,969 <sup>(1)</sup>
Net income of combined segments	616	(13,293)	1,081	11,258
Corporate	(3,314)	(3,424)	(6,336)	(3,580)
Foreign exchange loss	(1,409)	(929)	(477)	(929)
Income tax recovery	343	6,925	457	2,498
	\$ (3,764)	\$ (10,721)	\$ (5,275)	\$ 9,247
Capital expenditures				
Mining	\$14,754	\$ 7,358	\$39,330	\$ 7,358
<b>As at</b>	<b>June 30, 2005</b>		<b>Dec. 31, 2004</b>	
Assets				
Cash		\$30,801		\$ 69,828
Mining operations		134,354		95,748
Investments		143,006		133,068
		\$308,161		\$298,644

(1) includes cost of terminating investment management contract of \$29.2 million.

*Geographic Information*

<b>As at</b>	<b>June 30, 2005</b>	Dec. 31, 2004
Assets		
Canada	<b>\$177,958</b>	\$197,271
Bulgaria	<b>130,203</b>	101,373
	<b>\$308,161</b>	\$298,644

**12. Subsequent Event**

On July 15, 2005, the Company participated in a unit offering with Frontier Pacific Mining Corporation ("Frontier"), a mineral exploration and development company. The Company received 12,500,000 common shares and 12,500,000 common share purchase warrants for an aggregate consideration of \$3,750,000. As a result of this transaction the Company now has a significant interest in Frontier.

**13. Comparative Figures**

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

# Corporate Information

## Directors

**Colin K. Benner** <sup>(4)</sup>

Vancouver, British Columbia

**Derek H. L. Buntain** <sup>(4)</sup>

Grand Cayman, Cayman Islands,  
B.W.I.

**Michael J. Cooper** <sup>(1)(3)</sup>

Toronto, Ontario

**Jonathan C. Goodman**

Toronto, Ontario

**Ned E. Goodman**

Innisfil, Ontario & Saint-Sauveur,  
Québec

**Murray John** <sup>(4)</sup>

Toronto, Ontario

**John W. Lydall** <sup>(2)(4)</sup>

Oakville, Ontario

**Garth A. C. MacRae** <sup>(1)(4)</sup>

Toronto, Ontario

**Peter B. Nixon** <sup>(2)(3)</sup>

Keswick, Ontario

**Ronald Singer** <sup>(1)(3)</sup>

Montréal, Québec

**William G. Wilson** <sup>(2)</sup>

Dublin, Ireland

(1) *Audit Committee*

(2) *Compensation Committee*

(3) *Corporate Governance Committee*

(4) *Health, Safety & Environment  
Committee*

## Officers

**William G. Wilson**

*Chairman*

**Jonathan Goodman**

*President and Chief Executive Officer*

**Dr. Julian Barnes**

*Executive Vice President, Exploration*

**Lori E. Beak**

*Vice President and Secretary*

**C. Bruce Burton**

*Vice President and Chief Financial Officer*

**Laurence Marsland**

*Executive Vice President  
and Chief Operating Officer*

**Gregory Rieveley**

*Controller*

**Gabriela Sanchez**

*Vice President, Investor Relations*

## Executive Head Office

**Dundee Precious Metals Inc.**

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## Stock Listing & Symbol

The Toronto Stock Exchange

**DPM** – Common Shares

*Copies of the Company's Quarterly and  
Annual Reports are available on written  
request from our registrar:*

**Computershare Trust Company  
of Canada**

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