



DUNDEE

PRECIOUS METALS INC.

Second quarter report

Six months ended

June 30, 2006



DPM:TSX



DUNDEE

PRECIOUS METALS INC.

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Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations

The following is management's discussion and analysis ("MD&A") of the consolidated financial condition and results of operations of Dundee Precious Metals Inc. ("DPM" or the "Company") for the quarter ended June 30, 2006. This discussion should be read in conjunction with the financial information included in the interim consolidated financial statements as well as the annual consolidated financial statements for the year ended December 31, 2005 and the notes thereto.

This information is provided as at August 4, 2006.

HIGHLIGHTS

- DPM had net earnings of \$34.3 million or \$0.64 per share (\$0.61 per share on a diluted basis) and \$38.0 million or \$0.71 per share (\$0.68 per share on a diluted basis) for the three and six months ended June 30, 2006, compared with 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, respectively.
- As at June 30, 2006, the Company had working capital of \$104.4 million and an investment portfolio with a market value of \$186.2 million, which in the aggregate equated to \$5.39 per share, up from \$5.12 per share at December 31, 2005.
- The Chelopech gold/copper mine earned a gross profit of \$28.6 million and \$38.7 million on sales of 15,787 tonnes and 29,947 tonnes of gold/copper concentrate for the three and six months ended June 30, 2006, respectively, as a result of high commodity prices.
- Investment activities generated gross investment income of \$25.7 million and \$26.0 million for the three and six months ended June 30, 2006, respectively.
- On July 10, 2006, the Bulgarian Court denied the Company's claim that the Ministry of the Environment and Waters ("MoEW") had failed to rule on the EIA submitted on the Krumovgrad Gold Project within the statutory time limit established under Bulgarian law. The Company intends to appeal the Court's ruling and is considering pursuing its rights in the International Courts.
- The market for high arsenic bearing concentrate continues to weaken. The ongoing delay in obtaining the final approval of the Chelopech EIA has caused the Company to commence assessing alternative locations for its proposed metal processing facilities. This situation may result in a slowing down or suspension of operations at Chelopech in 2008 until facilities capable of processing the Chelopech material can be constructed and commissioned or alternative markets for the Chelopech concentrate can be found.
- The Company has fulfilled all of its registration obligations on its recently acquired Crni Vrh concessions in Serbia and has commenced an aggressive exploration program.
- The Company recently purchased copper put options to sell up to 11,825mt of copper at US\$2.50/lb over the period October 2006 to December 2007 as protection against the possibility of declining copper prices. The puts will be marked-to-market at the end of each reporting period until they are sold or expire.
- On July 25, 2006, DPM announced it had completed the purchase of a 100% interest in the Back River Project in Nunavut for US\$6.0 million (Cdn\$6.8 million). DPM has invested \$31.6 million in the property to the end of June 30, 2006 under the previous option agreement.

CORPORATE OVERVIEW

DPM is a Canadian based, international mining company engaged in the acquisition, exploration, development and mining of precious metal properties. Its common shares (symbol DPM) are traded on the Toronto Stock Exchange ("TSX").

Effective April 1, 2004, DPM changed from a closed-end investment company to an operating mining company. For periods prior to the effective date of conversion, investments were marked-to-market and the operations related only to the investment activities carried on by the Company. As at April 1, 2004, the mining operations previously acquired were consolidated with the accounts of the Company and the basis of accounting for investments was changed to the cost method.

In Bulgaria, the Company currently owns an operating underground gold/copper mine ("Chelopech") which is being expanded and is in the process of obtaining regulatory approval for the expansion and conversion from concentrate to metal production; and a feasibility stage gold project ("Krumovgrad Gold Project") which is awaiting regulatory approval for construction and operation. In addition, DPM holds a number of active exploration properties in the Central and Eastern Rhodope regions of the Balkans. In February 2005, the Company acquired an option to earn an interest in certain exploration properties located in Nunavut in the Canadian Arctic (the "Back River Project"). On July 25, 2006, DPM announced it had completed the purchase of a 100% interest in the Back River Project. On April 26, 2006, DPM announced that it had signed three significant exploration and exploitation concessions in one of the larger gold-copper-silver mining regions in Serbia making the Company the largest concession holder in the country.

DPM's business objectives are to identify, acquire, finance, develop and operate low cost, long life gold mining properties; and to provide support to selected mining companies by providing required capital through strategic investments. The Company intends to create shareholder value through its disciplined but opportunistic business model. The Company is assembling a pipeline of mining projects at various stages of development. The Company currently has projects in: (1) the operating and redevelopment stage; (2) the feasibility and development stage; (3) the scoping and advanced exploration stage; and (4) the early exploration stage. DPM intends to maximize the potential of and realize value through the exploration, development and operation of its existing properties in eastern Europe and Nunavut. The Company is also actively evaluating acquisition opportunities of mining properties to fill and expand its project pipeline as well as continuing to make strategic market purchases of mining securities where synergistic opportunities exist in order to balance its pipeline for continued growth.

DPM had working capital aggregating \$104.4 million and an investment portfolio with a market value of \$186.2 million, which in the aggregate equates to \$5.39 per share as at June 30, 2006. These funds are available: (1) to fund the working capital requirements of the Company's mining, exploration and corporate activities; (2) to provide funding to support the planned development activities at Chelopech and Krumovgrad; and (3) to finance DPM's strategic investment and corporate development initiatives. The Company's strategy is to sell certain non-strategic portfolio investments at appropriate times and use the proceeds to make strategic investments and to fund exploration and development activities, as required. One of the Company's key business strategies is to add to its mining pipeline through corporate and property acquisitions. This is achieved by: (1) providing early stage financing to exploration companies and establishing a relationship in order to be able to participate when a development partner is required; or (2) monitoring mining activities in targeted jurisdictions worldwide to identify and evaluate properties which could fill DPM's project pipeline and then initiating discussions with the owners of these prospective assets. The Company continues to be active on both fronts.

2006 RESULTS

MINING ACTIVITIES

Chelopech Gold/Copper Mine

Operations

The Company continues to operate the Chelopech Mine during the period of permitting and redevelopment. The following is a brief summary of the operating performance of mining and concentrate production.

Production, Costs and Sales	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Ore mined (mt)	203,645	222,227	429,538	435,371
Ore processed (mt)	225,960	210,383	471,779	407,450
Head grade (ore milled)				
Copper (%)	1.26	1.54	1.30	1.45
Gold (g/mt)	3.31	3.93	3.55	3.97
Concentrate produced (mt)	14,838	16,061	31,601	29,123
Metals contained in concentrate produced				
Copper (lbs)	5,358,423	5,824,606	11,420,539	10,513,833
Copper (% recovered)	85.35	81.51	84.16	80.81
Gold (ounces)	14,067	11,513	29,106	22,415
Gold (% recovered)	58.48	43.28	54.01	43.10
Cash cost per tonne of ore processed (US\$)	\$ 32.51	\$ 31.01	\$ 31.38	\$ 31.76
Cash cost per pound of copper in concentrate (US\$) ⁽¹⁾	\$ 0.86	\$ 0.69	\$ 0.78	\$ 0.73
Cash cost per ounce of gold in concentrate (US\$) ⁽¹⁾	\$ 180	\$ 195	\$ 181	\$ 217
Gross value of Copper and Gold in Concentrate				
Sold (US\$000) ⁽²⁾	\$ 22,636	\$ 11,867	\$ 39,898	\$ 24,798
Sales				
Sales (US\$000) ⁽³⁾	\$ 36,552	\$ 8,686	\$ 53,687	\$ 18,168
Sales (Cdn\$000)	\$ 41,138	\$ 10,805	\$ 60,910	\$ 22,440
Concentrate (dmt)	15,787	14,478	29,947	29,702
Copper in concentrate (lbs)	5,674,201	5,206,740	10,815,589	10,702,667
Gold in concentrate (ounces)	13,709	11,308	25,378	25,409

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

(2) Deductions from gross metal values are made for treatment charges, penalties, transportation and other selling costs to arrive at the value received for concentrate sold.

(3) Included in sales is US\$18.9 million and \$23.6 million (2005 - US\$1.2 million and \$1.3 million) for the three and six months ended June 30, 2006, respectively, related to the increase in metal prices on the settlement date from the provisional sales amounts reported at the end of the prior period. The large increase in 2006 related to the significant increases in metal prices realized in the first half of 2006.

Production

Ore hoisted in the second quarter of 2006 was 8% less than the second quarter of 2005 totalling 204,000 tonnes at 1.25% Cu and 3.22 g/t Au (2005 - 222,000 tonnes at 1.55% Cu and 3.94 g/t Au). Ore processed was 226,000 tonnes at 1.26% Cu and 3.31 g/t Au, up 7% from comparable period production in 2005 of 210,000 tonnes. This is a significant achievement considering major maintenance shut-downs occurred in the process plant (13.5 days), and in the mine (5 days) in April.

Concentrate production for the second quarter of 2006 was 14,838 tonnes, 8% less than the 16,061 tonnes produced in the comparable period of the prior year. Copper metal contained in concentrate was 5.4 million pounds, which was less than production for the comparable period of the previous year by 8%. Gold metal contained in concentrate produced was 14,067 ounces, which exceeded the comparable period of the previous year's production by 22%.

Process plant recoveries have shown a significant progress, with up to 4% improvement over the regression algorithm model used to predict recovery for copper over the last six months, and just recently an improvement of 4% recovery for gold. This has assisted to offset the reduced grades from mining due to delayed access to higher grade mining areas as scheduled. As a result, the unprocessed ore stock pile on surface has been reduced to 27,000 tonnes at June 30, 2006.

Ore hoisted in the first half of 2006 was only 1% less than the first half of 2005 totaling 430,000 tonnes at 1.27% Cu and 3.49 g/t Au (2005 - 435,000 tonnes at 1.46% Cu and 3.97 g/t Au). Ore processed was 472,000 tonnes at 1.30% Cu and 3.55 g/t Au, up 16% from comparable period production in 2005 of 407,000 tonnes.

Concentrate production for the first half of 2006 was 31,601 tonnes, 9% more than the 29,123 tonnes produced in the comparable period of the prior year. Copper metal contained in concentrate was 11.4 million pounds, which was higher than production for the comparable period of the previous year by 9%. Gold metal contained in concentrate produced was 29,106 ounces, which exceeded the comparable period of the previous year's production by 30%.

Sales

Sales of gold/copper concentrate totalled 15,787 tonnes for the second quarter of 2006, up 10% from the second quarter of 2005 sales of 14,478 tonnes. Sales yielded revenue, net of freight, treatment charges, penalties and other selling costs, of US\$36.6 million (2005 - US\$8.7 million). The Company benefited from the robust increase in metal prices, realizing average prices for the quarter of US\$2.65 (2005 - US\$1.51) per lb of copper and US\$554 (2005 - US\$427) per oz of gold.

Sales of gold/copper concentrate totalled 29,947 tonnes for the first half of 2006, consistent with the first half of 2005 sales of 29,702 tonnes. Sales yielded revenue, net of freight, treatment charges, penalties and other selling costs, of US\$53.7 million (2005 - US\$18.2 million). The Company benefited from the robust increase in metal prices, realizing average prices for the first half of 2006 of US\$2.40 (2005 - US\$1.47) per lb of copper and US\$549 (2005 - US\$419) per oz of gold.

Expansion and Redevelopment

On December 8, 2005, DPM's Board of Directors approved an investment of US\$175 million to undertake the mine expansion and construction of a Metal Production Facility ("MPF") at Chelopech. This investment is based on the results to date of its Definitive Feasibility Study ("DFS") undertaken by GRD Minproc Ltd. ("GRD Minproc"). The estimated cost is comprised of US\$150 million, plus a provision of US\$25 million for an oxygen plant.

The Project

DPM proposes to increase mine production and construct a facility to produce copper and gold metals. The process will also convert the arsenic present in the concentrate into an environmentally stable form suitable for safe disposal into a Tailings Management Facility ("TMF"). The scope of the DFS incorporates the current operation, upgrade of the existing mine and flotation plant, upgrade of existing infrastructure and facilities and the new MPF.

The Chelopech expansion project comprises the expansion of mine production capacity to 2.0 million tonnes per year, including the completion of a decline from surface to underground, and modernization of the existing flotation concentrator to handle the capacity, including the introduction of a new semi-autogenous ("SAG") mill. Based on present measured and indicated resources and other DFS results, the life of mine for the operation is expected to be a minimum of 9.3 years from commissioning of the new facilities.

An EIA has been completed by the Balkan Science and Education Centre of Ecology and Environment and was submitted to the Bulgarian MoEW on November 3, 2005. On March 10, 2006, the Supreme Expert Environmental Council voted in favour of the resolution to approve the EIA, with the exception of the Chairman (Deputy Minister of MoEW). As a result of the Deputy Minister's dissenting vote, the Minister of MoEW called for another Supreme Expert Environmental Council hearing on March 28, 2006. At this hearing, the vote was in favour of approving the

EIA. The Minister of MoEW, however, has not as yet ratified the approval of the EIA, even after positive opinions were received from the Ministry of Economy and Energy. If approval of the EIA has not been received from the Bulgarian MoEW by September 2006, the schedule for ramp-up in production and completion of the facilities by the end of 2007 will not be possible.

The Company has commenced evaluating alternative locations for the MPF.

Current Development Activities

The mining method has changed from sublevel caving to long hole open stoping and improvements in equipment and workforce skill training is ongoing in order to increase mine production to a rate of 2.0 million tonnes per year by late 2007.

Construction of a 2,500 metre decline, including ancillary development, from surface to the underground mine workings began in April 2004 from both the surface portal and the underground exit point. Actual metres advanced during the year were below target due to poor ground conditions. A new tunnelling machine was brought into service in mid 2005; however, stabilizing the ground conditions behind the advancing road header has continued to present challenges. As of June 30, 2006, 38% of the decline had been completed.

Development of the project requires the acquisition of land from a variety of stakeholders in the Chelopech and Chavdar Municipalities. The land is required for the new TMF, and a buffer zone around the existing and new TMF's. The land purchase program is well advanced and scheduled to be fully completed during 2006.

Krumovgrad Gold Project

The Krumovgrad Gold Project has a proven and probable mineral reserve of approximately 4.86 million tonnes of ore grading 5.08 grams of gold per tonne (794,000 contained ounces of gold). A DFS dated June 2005 was prepared by Ausenco Limited of Perth, Australia. On July 5, 2005, the Board of Directors approved the DFS for the construction and operation of the project situated in south-eastern Bulgaria. The DFS estimated construction costs for the proposed open pit mine and related facilities of US\$75 million, with low unit cash operating costs, after tax payback in less than two years and annual gold production of 150,000 ounces per year for the first four years.

The method selected is a conventional open pit, drill, blast, load and haul operation, using a hydraulic excavator to carry out selective mining, similar to many small tonnage open pit gold mining operations throughout the world. The mining equipment will be owner operated and will be maintained by the equipment supplier.

A three stage pit design has been optimized based on practical push back dimensions and ore requirements, minimizing stripping requirements early in the mine life and the mining rates.

The mine is expected to produce a total of 4.9 million tonnes of ore (including the low grade stockpile) over its operating life, which will be processed at an average rate of 850,000 tonnes of ore per year for the Upper Zone material, reducing to 750,000 tonnes for the Wall Zone material. The schedule envisages blending the two material types.

Permitting

With strong support at the central bureaucratic level and a recent public acknowledgement by the MoEW that the project was designed to exceed key European Union ("EU") environmental guidelines, the Corporation commenced a comprehensive lobbying effort in an attempt to move the project forward.

In addition, to address the principal concerns expressed by local politicians, DPM has offered to provide financial guarantees to cover the cost of closure and rehabilitation, and to establish a sustainable development fund specifically designed to replace job loss upon mine closure.

An EIA, filed with the Bulgarian MoEW in April 2005, incorporating best available techniques designed to meet or exceed Bulgarian and EU guidelines, is being held in abeyance by the MoEW without explanation. To protect the Corporation's interests, a legal appeal was filed December 2005 with the Supreme Administrative

Court (the "Court") of Bulgaria against the MoEW for failure to rule on DPM's EIA submission within the timeframe allowed by Bulgarian legislation.

The Company asserted that it had fulfilled all of the requirements of Bulgaria's Environmental Protection Act ("EPA") and other applicable legislation. These requirements include, but are not limited to:

- (i) signing a Prospecting and Exploration Contract with the Bulgarian Minister of Economy;
- (ii) registering a Geological Discovery with the MoEW;
- (iii) developing an Investment Project;
- (iv) informing the competent state authorities and the communities concerned about the Investment Project;
- (v) preparing a Terms of Reference for an EIA and discussing it with the competent authorities and the community;
- (vi) assigning the preparation of an EIA to independent experts, licensed under the Bulgarian law, and submitting the EIA to the MoEW;
- (vii) obtaining a grade on the evaluation of the EIA from the MoEW (Krumovgrad received a grade of A); and
- (viii) holding public hearings on the EIA.

The Company claimed that the non-rendering of a resolution by the MoEW on the Krumovgrad EIA within three months of the public hearings is a silent refusal that directly infringes on the rights of the Company. The essence of the presumption is that in a case where an administrative body is authorized to issue an individual administrative act, including a decision, and it fails to do so within the statutory time limits, the non-issuance of the act is considered a silent refusal. The Company requested the Court to revoke the silent refusal of the MoEW and approve the EIA or, alternatively, to instruct the MoEW to address the matter appropriately in compliance with Bulgarian law.

After a public hearing of the case on May 15, 2006, the Court, consisting of a panel of three judges, issued its Ruling on July 10, 2006 for the termination of the court proceedings on the grounds of the inadmissibility of the claim. Although the Court's Ruling confirms that the MoEW is obliged to make a decision, it leaves the Company open to the discretion of the MoEW to delay making the decision indefinitely by excluding the possibility of the Court forcing it to make a decision. DPM has been advised by counsel that the Court's ruling to terminate proceedings is contrary to provisions in the Bulgarian constitution and the law. Furthermore, the Company has been advised that in similar cases, the Court has ruled that the Administrative Procedure Act applies unless specifically prohibited by a particular law. DPM will appeal the Ruling of the Court and is also reviewing its rights in the International Courts.

As previously announced, all engineering and procurement activities were suspended in May 2006. This is in addition to the suspension of the resettlement program which occurred at the end of February 2006. Consequently, the Krumovgrad Gold Project will be delayed until such time as the Bulgarian government compels the MoEW to meet its legal obligations and approve the EIA which has been deemed to be fully compliant by independent international and licensed Bulgarian environmental experts.

EXPLORATION

Back River Project

The Back River camp is mid-way through its 2006 exploration program. DPM has budgeted \$15.6 million for the 2006 exploration program. As of June 30, 2006, approximately 14,000m of diamond drilling had been completed, with up to an additional 15,000m planned to be drilled by the anticipated close of the field season in mid-October. As reported in December 2005, the focus is to accelerate drill coverage across the Back River property and assess the potential to expand the existing resource base via regional exploration success. In addition, step-out drilling is in progress to test the strike and depth projections of the Goose Lake and George Lake resource footprints.

An airborne geophysical survey was completed during the current quarter and has successfully defined several magnetic and electromagnetic anomalies. These anomalies are being integrated with geological mapping, structural setting and historical surface samples. Drill testing of the targets identified commenced during mid-April.

RSG Global is currently updating resource estimates for Goose Lake and George Lake as at the end of 2005, with the final report expected in early August 2006. Concurrently, the Company has initiated a scoping study to broadly evaluate potential development options conducted by Roscoe Postle Associates. The scoping study is anticipated to be completed during the third quarter.

On July 25, 2006, DPM completed the purchase of a 100% interest in the Back River Project from Kinross Gold Corporation for US\$6.0 million (Cdn\$6.8 million).

Serbia

DPM is currently the largest concession holder in Serbia with title to over 18 exploration license agreements located within both the Cretaceous age Timok Magmatic Complex in eastern Serbia and the Tertiary age Volcanic Complex that passes through western and southern Serbia. The geology of Serbia represents a continuation of the Cretaceous and Tertiary Arc systems that are found in Greece, Macedonia, Romania, Bulgaria, Ukraine and Turkey and hosts significant copper and gold deposits and mining operations in the Bor region. The Company can maximize the value of its Serbian investments by capitalizing on synergies with its projects in Bulgaria through the use of modern and systematic exploration methodology.

In April 2006, DPM and the Government of Serbia signed exploration and mining concession contracts for the Coka Kuruga, Coka Kupjatra and Tilva Njagra exploration and exploitation concessions (collectively known as the Crni Vrh concessions). These concessions are contiguous and are located approximately 10 kilometres west and northwest of the town of Bor, representing an area of 153 square kilometres. The exploration concession is granted for a three year period, renewable for an additional two years, and includes mining rights which have been granted for 25 years.

DPM has budgeted \$13.6 million for the 2006 exploration program in Serbia. The exploration program will focus on further understanding the geological context of the Timok Magmatic Complex with the aim to define a gold/copper resource within the next two years. Exploration activities in the reporting period have focussed on evaluating the Crni Vrh concessions and the Company's exploration licenses in the Timok region of northeast Serbia. Work completed to date has included flying a detailed aeromagnetic and TEM heliborne geophysical survey over the Timok licenses. Further data processing and interpretation of this data is required.

In addition, detailed geological mapping, trenching and surface geochemical surveys have been undertaken. A structural interpretation and synthesis of the Timok region is currently being carried out. The environmental baseline study has commenced. Drilling continues at prospects on the Company's exploration licenses in the Timok area targeting zones of hydrothermal alteration with associated geochemical anomalies.

Drilling has commenced on the Crni Vrh concessions, initially targeting the multiple zones of hydrothermal alteration and testing previously reported mineralized intercepts generated by historical State-funded exploration programs. Further targets are expected to be generated as additional data becomes available from geological mapping, prospecting, geochemical and geophysical surveys. Surface geophysical surveys are planned for the next quarter targeting zones of hydrothermal alteration.

Additionally, geological mapping, stream sediment sampling and follow-up surface geochemical surveys have been completed on regional licenses located elsewhere in Serbia.

INVESTMENT ACTIVITIES

As at June 30, 2006, the portfolio had a market value of approximately \$186.2 million. The top three positions as at June 30, 2006, at market are: Tahera Diamond Corporation - \$37.9 million; Cambior Inc. - \$25.5 million; and Miramar Mining Corporation - \$44.4 million. In addition, the Company held equity positions in excess of 10% in five other companies.

DPM disposed of investments for gross proceeds of \$42.5 million on which it realized a gain of \$25.7 million for both the three and six months ended June 30, 2006, respectively, and invested \$2.6 million and \$8.4 million in strategic investments for the three and six months ended June 30, 2006, respectively. In accordance with the Company's accounting policies, \$0.1 million in investments was written down during the quarter as management determined that their decline in value was other than temporary.

FINANCIAL RESULTS

RESULTS OF OPERATIONS

The Company reported net earnings of \$34.3 million or \$0.64 per share (\$0.61 per share on a diluted basis) and \$38.0 million or \$0.71 per share (\$0.68 per share on a diluted basis) for the three and six months ended June 30, 2006 compared to 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, respectively. The increase in net income was attributed to an increase in operating income from mine operations, primarily as a result of increased metal prices.

Condensed Income Statement

<i>Cdn\$ millions, except per share amounts</i>	Three Months		Six Months	
Ended June 30,	2006	2005	2006	2005
Revenue from mining operations				
Gold/copper concentrate	\$ 41.1	\$ 10.8	\$ 60.9	\$ 22.4
Cost of sales	12.5	9.4	22.2	21.2
Gross profit from mining operations	\$ 28.6	\$ 1.4	\$ 38.7	\$ 1.2
Net investment income	25.7	0.3	26.0	1.2
Net earnings before expenses and income tax	\$ 54.3	\$ 1.7	\$ 64.7	\$ 2.4
Expenses	(12.1)	(5.8)	(18.7)	(8.1)
Income tax recovery (expense)	(7.9)	0.3	(8.0)	0.4
Net earnings (loss)	\$ 34.3	\$ (3.8)	\$ 38.0	\$ (5.3)
Net earnings (loss) per share				
– basic	\$ 0.64	\$ (0.07)	\$ 0.71	\$ (0.10)
– fully diluted	\$ 0.61	\$ (0.07)	\$ 0.68	\$ (0.10)

Net Earnings Before Expenses and Income Tax

Net earnings before expenses and income tax of \$54.3 million and \$64.7 million for the three and six month periods ended June 30, 2006, compared with \$1.7 million and \$2.4 million for the three and six months ended June 30, 2005, respectively, resulted from the following:

- (1) mining operations for the three and six month periods ending June 30, 2006 had a gross operating profit of \$28.6 million and \$38.7 million on the sale of 15,787 and 29,947 dry tonnes of gold/copper concentrate, respectively, compared with a profit of \$1.4 million and \$1.2 million on the sale of 14,478 and 29,702 dry tonnes, respectively, reported during the same periods in 2005. The dramatic increase in profitability was primarily a result of the significantly higher metal prices as illustrated by the average prices for gold and copper in the first half of 2006 of \$549/oz (2005 - \$419/oz) and \$2.40/lb (2005 - \$1.47/lb), respectively; and
- (2) the financial results of the investment business for the three and six month periods ending June 30, 2006 contributed \$25.7 million and \$26.0 million, respectively, compared with \$0.3 million and \$1.2 million in the same periods last year.

Expenses

Administrative and Other Expenses

Administrative costs were \$4.2 million and \$6.8 million for the three and six months ended June 30, 2006, respectively, compared to \$2.0 million and \$3.5 million for the three and six month periods ending on the same day last year. The increase over the prior year's quarter was due to continued systems and personnel development to support a new and rapidly growing international mining company, an increase in business development activities undertaken during the period. Professional fees relating to the further development of internal controls, various permitting matters, and licensing and tender issues in Bulgaria have also contributed to this increase.

Exploration Expense

Exploration costs incurred for the three and six months ended June 30, 2006 were \$4.0 million and \$5.3 million, respectively, compared to \$1.0 million and \$1.4 million, respectively, in the comparative periods of 2005. Exploration costs during the period were incurred in the Eastern Rhodope Region of the Balkans. DPM expenses all early stage exploration costs until the date it can be established that a property has mineral resources which have the potential of being economically recoverable. The Company is expecting a significant increase in the level of exploration activity in the second half of 2006.

Stock Based Compensation Expense

Stock based 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 was \$0.4 million and \$1.4 million for the three and six months ended June 30, 2006, respectively, calculated using a Black-Scholes model. These costs are charged to operations over their three year vesting period. During the three and six months ended June 30, 2006, stock option expense was \$1.0 million and \$1.9 million, respectively. The DSU's vest immediately and compensation expense is recognized at the time of grant. The outstanding liability is marked-to-market each quarter. During the quarter, \$0.1 million was charged to compensation expense for the issuance of DSU's. As a result of the decline in market value of the Company's shares during the current quarter, \$0.3 million was credited to compensation expense. For the six months ended June 30, 2006, \$0.2 million relating to the issue of DSU's and \$0.7 million relating to the mark-to-market of the DSU's were charged to compensation expense.

Foreign Exchange

Expenses include a charge relating to 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 exchange rates result in gains and losses when translated to Canadian currency. The strengthening of the Canadian dollar against both the US dollar and the Euro in recent months has resulted in a \$1.3 million foreign exchange loss against the Canadian dollar in the quarter.

Cash Flow Summary

<i>Cdn\$ millions</i>	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Cash provided by (used in)				
Operating activities	\$ 12.0	\$ (0.8)	\$ (0.8)	\$ (2.9)
Property, plant and equipment	(19.7)	(14.8)	(39.2)	(39.4)
Investment transactions, net	39.9	(4.0)	34.1	(3.7)
Financing activities	1.0	11.7	1.4	7.0
Increase (decrease) in cash	\$ 33.2	\$ (7.9)	\$ (4.5)	\$ (39.0)

Operating Activities

For the three and six months ended June 30, 2006, the Company's operating activities provided cash of \$12.0 million and used cash of \$0.8 million, respectively, due primarily to an increase in accounts receivable and other assets of \$13.7 million and \$31.8 million, respectively, offset by cash flow from operations of \$11.7 million and \$19.3 million, respectively, and increases in accounts payable of \$12.3 million and \$13.5 million, respectively. In the comparative three and six month periods ended June 30, 2005, the increase in non-cash working capital absorbed \$2.6 million and \$3.2 million, respectively.

Investing Activities

Investing activities provided \$20.3 million and used \$5.0 million in cash during the three and six months ending June 30, 2006, respectively. Net changes in investment portfolio activities provided \$39.9 million and \$34.1 million during the three and six months ended June 30, 2006, respectively, compared with using \$4.0 million and \$3.7 million for the same periods of 2005.

Capital expenditures on property, plant and equipment for the three and six months ended June 30, 2006 totalled \$19.6 million and \$39.1 million, respectively. Expenditures for the three and six months ended June 30, 2006 were comprised of: a) exploration and mine development (\$15.8 million and \$32.9 million, respectively); b) property, plant and equipment (\$3.8 million and \$6.2 million, respectively); and c) property acquisition (\$0.1 million in both periods). In the three and six month periods ended June 30, 2005, the Company expended \$14.8 million and \$39.4 million, respectively, on plant and equipment. The following tables provide details of the amounts:

Chelopech

At Chelopech, \$10.1 million (US\$9.3 million) and \$26.0 million (US\$23.2 million) was spent during the three and six months ended June 30, 2006, respectively, and \$82.8 million (US\$68.9 million) has been spent on the property from the date of acquisition as follows:

Chelopech Project Costs

<i>US\$ millions</i>	Current Quarter Cost	Year- to-Date Cost	Total Cost from Date of Acquisition
Project:			
Establishing reserves	\$ 0.3	\$ 0.6	\$ 5.2
Decline	1.0	1.7	8.2
Mine development	1.6	3.5	22.0
Mill development	0.9	2.1	4.6
Definitive feasibility study	0.1	0.3	9.9
Oxygen plant	2.0	10.3	10.3
Other	1.5	2.5	6.5
Total	\$ 9.3	\$ 23.2	\$ 68.9

Krumovgrad

At Krumovgrad, \$1.4 million (US\$1.3 million) and \$2.7 million (US\$2.5 million) was spent during the three and six months ended June 30, 2006, respectively, and \$20.8 million (US\$16.8 million) has been spent on the property from the date of acquisition as follows:

Krumovgrad Project Costs

<i>US\$ millions</i>	Current Quarter Cost	Year- to-Date Cost	Total Cost from Date of Acquisition
Project:			
Reserve definition drilling	\$ -	\$ -	\$ 4.5
Definitive feasibility study	-	-	3.6
Project development	1.3	2.5	4.3
Other	-	-	4.4
Total	\$ 1.3	\$ 2.5	\$ 16.8

Back River

DPM acquired the option to earn a 60% interest in this advanced stage exploration property early in 2005 for \$9.1 million and subsequently, a further \$22.5 million was expended on exploration activities. On July 25, 2006, DPM acquired a 100% interest in the Back River Project.

Total

As at June 30, 2006, the Company has capitalized the following costs:

Property, Plant and Equipment

<i>Cdn\$ millions</i>	Acquisition Cost	Project Cost	Total Cost
Back River (<i>Nunavut, Canada</i>)	\$ 9.1	\$ 22.5	\$ 31.6
Chelopech (<i>Bulgaria</i>)	20.3	82.8	103.1
Krumovgrad (<i>Bulgaria</i>)	30.1	20.8	50.9
Corporate	-	1.5	1.5
Total	\$ 59.5	\$ 127.6	\$ 187.1

Financing Activities

In the three and six months ended June 30, 2006, the exercise of stock options provided \$1.0 million and \$1.4 million, respectively. During the comparative periods of 2005, financing activities provided \$11.7 million and \$6.9 million, respectively, from debt financing proceeds offset by payments for the retirement of debt.

LIQUIDITY

The Company has working capital and marketable securities with a market value in excess of \$290 million as at June 30, 2006. It is anticipated that these funds, in addition to funds generated from operations, will be sufficient to finance current mining and investment activities as well as the Company's committed obligations in 2006.

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

Contractual Obligations

<i>Cdn\$ thousands</i>	Total	Payments Due by Period			
		Up to 1 Year	1-3 Years	4-5 Years	Over 5 years
Long-term debt	\$ 11,162	\$ 1,395	\$ 5,581	\$ 4,186	\$ -
Capital lease obligations	130	130	-	-	-
Operating lease obligations	2,879	973	1,453	453	-
Purchase obligations	20,818	19,434	1,007	377	-
Other long-term obligations	127	127	-	-	-
Total contractual obligations	\$ 35,116	\$ 22,059	\$ 8,041	\$ 5,016	\$ -

Included in the purchase obligations are \$4.1 million of contracts relating to the 2006 Back River exploration project, \$5.3 million relating to Chelopech's Engineering, Procurement, and Construction Management purchase commitments and \$7.7 million for the renewal of Chelopech's mobile fleet.

The Company is planning an exploration program which is budgeted at \$34.3 million for 2006. It should be noted that the budget assumes that all of the various programs will be successful and require immediate follow up. Furthermore, a significant portion of expenditures are temporarily discretionary and can be deferred, if necessary, for a period of time.

The Company also has board approval to proceed with two development projects once the necessary regulatory approvals are received. The Chelopech expansion and redevelopment is expected to cost US\$175 million and the Krumovgrad Gold Project is expected to cost US\$75 million. Preliminary discussions have been held with international financial institutions regarding debt financing of between US\$150 - \$175 million for both projects. The equity markets are also available for providing new funds for superior projects and are especially active in strong commodity cycles.

QUARTERLY INFORMATION

<i>Cdn\$ millions, except per share amounts</i>	2006			2005			2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 ⁽¹⁾	Q3
Gold/copper								
concentrate sales	\$ 41.1	\$ 19.8	\$ 33.1	\$ 7.7	\$ 10.8	\$ 11.6	\$ 11.4	\$ 4.7
Cost of sales	12.5	9.7	18.2	6.2	9.4	11.7	13.2	5.0
Gross profit (loss)	28.6	10.1	14.9	1.5	1.4	(0.1)	(1.8)	(0.3)
Net investment								
income (loss)	25.7	0.4	(3.2)	25.9	0.3	0.8	10.9	0.8
Net earnings before								
undernoted	54.3	10.5	11.7	27.4	1.7	0.7	9.1	0.5
Expenses	(12.1)	(6.7)	(7.5)	(4.3)	(5.8)	(2.3)	(7.6)	(4.0)
Income tax recovery								
(expense)	(7.9)	(0.1)	2.0	(4.1)	0.3	0.1	(0.2)	0.8
Net income (loss)	34.3	3.7	6.2	19.0	(3.8)	(1.5)	1.3	(2.7)
Net earnings (loss) per share								
– basic	\$ 0.64	\$ 0.07	\$ 0.11	\$ 0.35	\$(0.07)	\$(0.03)	\$ 0.03	\$(0.05)
– fully diluted	\$ 0.61	\$ 0.07	\$ 0.11	\$ 0.35	\$(0.07)	\$(0.03)	\$ 0.03	\$(0.05)

1) The Company changed its year end from January to December in 2004. Accordingly, there are only results for the 11 months ending December 31, 2004.

2006 OUTLOOK & CHALLENGES

OBJECTIVES

The Company continues to focus on filling the mining project pipeline. The critical objectives in 2006 are to:

- successfully complete the permitting processes in Bulgaria for both the Chelopech and Krumovgrad projects;
- secure up to US\$175 million in project financing for the development of Chelopech and construction of the Krumovgrad Gold Project;
- commence an aggressive US\$11.3 million exploration program in Serbia;
- sustain the active exploration of and add to resources at the Back River Project in Nunavut with a \$15.6 million exploration program; and
- continue to pursue additional mining opportunities, either through corporate investments or direct property interests.

It remains the Company's objective to be producing 500,000 ounces of gold equivalent by 2008. However, these plans are dependent on the prompt and favourable decisions of the Bulgarian regulators for the further development of its properties and the acquisition of producing mining properties.

Metal Prices and Currencies

Gold and copper prices have significantly increased to date in 2006. With the strengthening of commodity prices, there is rising concern about inflationary pressure leading to increases in interest rates, which will lead to a slowing of economic growth. It is currently the Company's policy not to hedge gold prices. There were no hedges in place at June 30, 2006. However, the Company did acquire copper put options on 11,825 mt covering the period from October 2006 to December 2007. These financial instruments represent an option, but not an obligation, to sell copper at US\$2.50 per pound. As the price of copper declines, the value of the unexpired puts increases.

Revenue from mine production of gold and copper is priced in US dollars. The majority of operating and capital expenditures are Euro based or US dollar based. Both the US dollar and the Euro continue to depreciate against the Canadian currency as commodity prices increase.

The Company's investment income is denominated primarily in Canadian dollars as most of the investments trade on the TSX and the majority of cash balances are in Canadian currency.

Concentrate Market

The demand for copper metal continues to be strong. A combination of consumer demand, particularly from Asia, low inventories, a number of producer technical and grade difficulties and continued institutional buying has caused the copper price to reach record levels. Short term buyer interest has resulted in record volatilities in the forward markets.

In the copper concentrate market, smelters are actively looking for additional supply, as a result of having completed openings and expansions of their facilities. The demand has led to a reduction of spot treatment and refining charges from the latter part of last year. The deductions are forecast to fall even further as smelters continue to enjoy the benefit of copper price participation in their overall terms.

However, Chelopech's high arsenic content continues to restrict opportunities to take advantage of smelter demand resulting in mine production having to be restrained until metal production becomes part of the mine's operations. The tightening market for Chelopech concentrate together with a continued delay in the approval of the Chelopech EIA and construction of the MPF could result in a temporary interruption in operations in 2008.

Capital Costs

As commodity prices continue to strengthen, mine exploration and development costs continue to increase and the availability of reliable sources of supply of qualified personnel and supplies at reasonable prices becomes more difficult. The Company has used the most current pricing available in its DFS's; however, continued delays will likely have a negative impact on the estimates of total costs.

In addition, the cost of projects available for acquisition is increasing as the number of companies looking to expand through acquisition increases and the underlying commodity prices continue to strengthen.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates in preparation of its financial statements conforming with Canadian Generally Accepted Accounting Principles ("GAAP"). Critical accounting estimates represent estimates that are highly uncertain and could materially impact the financial statements. These estimates affect the reported amount of assets and liabilities as well as the revenues and expenses. Changes to these estimates may result in material changes to these line items. The critical accounting estimates made by the Company relate to the following items:

Capitalization of Exploration Expenses

Exploration expenses incurred to the date of establishing that a property has mineral resources, with the potential of being economically recoverable, are charged to operations. All subsequent exploration and development expenses are capitalized and amortization is deferred until the commencement of commercial production. The estimate of mineral resources is a complex process and requires significant assumptions and estimates regarding economic and geological data. Any revision to any of these estimates could result in the impairment of the capitalized exploration expenses. As a result, there could be a material impact on the asset balance.

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.

Property, Plant and Equipment

Property, plant and equipment represent 43% of total assets at June 30, 2006. As such, the application of the Company's accounting policies for these assets has a material impact on the Company's financial results. Property, plant and equipment and related capitalized expenditures are recorded at cost. Amortization expense is based on the estimated useful lives of these assets. The carrying values of mining properties and property, plant and equipment 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 the Company's reserves. The variability of these factors depends on a number of conditions, including the uncertainty of future events, and as a result, accounting estimates may change from one period to another. Asset balances could be materially impacted if other assumptions and estimates had been used. In addition, future operating results could be impacted if different assumptions and estimates are applied in future periods.

Income Taxes

In determining both the current and future components of income taxes, the Company interprets tax legislation in a variety of jurisdictions as well as makes assumptions as to the expected time of the reversal of future tax assets and liabilities. If the interpretations or assumptions differ from the tax authorities or if the timing of the reversal is not properly anticipated, the provision for or relief of taxes could increase or decrease in future periods.

Investments

Investments represent 21% of total assets at June 30, 2006. As such, the application of the Company's accounting policies for these assets has a material effect on the Company's financial results. Investments are recorded at cost. Investments in which the Company has significant influence, but does not control, are accounted for using the equity method. Investments are reviewed for impairment based on the market values of the securities. When the loss on investment is considered other than temporary, the investment is written down to recognize the loss. The volatility of the market values can cause accounting estimates to change from one period to the next. As a result, balances could be materially impacted.

RISK MANAGEMENT

Commodity Price Risk

The price of the common shares, the Company's financial results and exploration, development and mining activities could be significantly and adversely affected by declines in the price of gold, silver and copper. Gold, silver and copper prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of gold and silver by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold, silver and copper-producing countries throughout the world. Depending on the price of gold, silver and copper, cash flow from mining operations may not be sufficient and the Company could be forced to discontinue production and may lose its interest in, or may be forced to sell, some of its properties. Future production from the Company's mining properties is dependent on gold, silver and copper prices that are adequate to make these properties economic. Currently, the Company's policy is not to hedge future gold sales.

The Company has acquired some copper put options which represent an option, but not an obligation, to sell copper at a pre-determined price. The puts were purchased in an effort to protect the Company against the potential decline in the value of copper.

Declining commodity prices can impact operations by requiring a reassessment of the feasibility of a particular project. Even if the project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

Foreign Currency Risk

Exchange rate fluctuations may affect the capital costs that the Company incurs in its operations. Gold, silver and copper are sold in US dollars and the Company's costs are incurred principally in Canadian dollars and Bulgarian leva, which is currently fixed to the Euro. The appreciation of non-US dollar currencies against the US dollar can increase the cost of gold, silver and copper production in US dollar terms. The Company monitors these currencies but has not entered into derivative instruments to hedge against this risk.

Credit Risk

The Company is subject to credit risk from its customers; however, it receives a provisional payment on all sales at the time title of the concentrate transfers from many of 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. The Company monitors this risk and does not consider the likelihood of a material loss to be significant.

Operations

Mining operations generally involve a high degree of risk. The Company's operations are subject to all the hazards and risks normally encountered in the exploration, development and production of gold, silver and copper, including unusual and unexpected geologic formations, seismic activity, rock bursts, cave-ins, flooding and other conditions involved in the drilling and removal of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although adequate precautions to minimize risk will be taken, milling operations are subject to hazards such as equipment failure or failure of retaining dams around tailings disposal areas which may result in environmental pollution and consequent liability.

Success of the Company's operations also depends on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenome-

na, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations.

Financing

The mining, processing, development and exploration of the Company's properties may require substantial additional financing. Failure to obtain sufficient financing may result in delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. Low gold, silver and copper prices could adversely affect the Company's ability to obtain financing in the future.

Insurance

The Company's business is subject to a number of risks and hazards, generally, including adverse environmental conditions, industrial accidents, labour disputes, unusual or unexpected geological conditions, ground or slope failures, cave-ins, changes in the regulatory environment, and natural phenomena such as inclement weather conditions, floods, hurricanes and earthquakes. Such occurrences could result in damage to mineral properties or production facilities, personal injury or death, environmental damage to the Company's properties or the properties of others, delays in mining, monetary losses and possible legal liability.

Although the Company maintains insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with a mining company's operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Company or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

Diversification

The business activities of issuers in the resource industry ("Resource Issuers") are speculative and may be adversely affected by factors outside the control of those issuers. Resource Issuers may not hold or discover commercial quantities of precious metals or minerals and their profitability may be affected by adverse fluctuations in commodity prices, demand for commodities, general economic conditions and cycles, unanticipated depletion of reserves or resources, native land claims, liability for environmental damage, competition, imposition of tariffs, duties or other taxes and government regulation, as applicable. Because the Company has and may continue to invest primarily in securities issued by Resource Issuers engaged in the mining industry or related resource businesses (including junior issuers), the value of the Company's investment portfolio of securities may be more volatile than portfolios with a more diversified investment focus. Also, the value of the Company's investment portfolio of securities may fluctuate with underlying market prices for commodities produced by those sectors of the economy.

Project Approval, Development and Commissioning Risk

The Company's operations are subject to receiving and maintaining permits from appropriate governmental authorities. Although the Company currently has all required permits for its operations as currently conducted, there is no assurance that delays will not occur in connection with obtaining all necessary renewals of such permits for the existing operations or additional permits for any possible future changes to operations. Prior to any development on any of its properties, the Company must receive permits from appropriate governmental authorities. There can

be no assurance that the Company will continue to hold all permits necessary to develop or continue operating at any particular property.

Exploration

Although the Company's activities are primarily directed towards mining operations and the development of mineral deposits, its activities also include the exploration for mineral deposits. Exploration is highly speculative in nature and exploration projects involve many risks that even a combination of careful evaluation, experience and knowledge may not eliminate. 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 normally required to locate and establish mineral reserves and to construct mining and processing facilities. While the discovery of an ore body may result in substantial rewards, few properties that are explored are ultimately developed into producing mines.

Political Risk

The majority of the Company's operations are currently conducted in Bulgaria and as such, the Company's operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties vary from country to country and include, but are not limited to, terrorism; hostage taking; military repression; extreme fluctuations in currency exchange rates; high rates of inflation; labour unrest; the risks of war or civil unrest; expropriation and nationalization; renegotiation or nullification of existing concessions, licenses, permits and contracts; illegal mining; changes in taxation policies; restrictions on foreign exchange and repatriation; changing political conditions; currency controls; and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Changes, if any, in mining or investment policies or shifts in political attitude in Bulgaria may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use and mine safety.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Government Laws and Regulations

The activities of the Company are subject to various laws governing prospecting, development, production, taxes, labour standards and occupational health, mine safety, toxic substances, land use, water use, land claims of local people and other matters. Although the Company currently carries out its operations in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of mining and milling or more stringent implementation thereof could cause costs and delays that would have a substantial adverse impact on the Company.

Development Projects

The Company's ability to sustain or increase the present levels of production is dependent in part on the successful development of new ore bodies and/or expansion of existing mining operations. The commercial viability of development projects is based on many factors, including: the particular attributes of the deposit, such as

size, grade and proximity to infrastructure; metal prices, which are highly cyclical; government regulations; capital and operating costs of such projects; and foreign currency exchange rates. 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. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Production and Operating Cost Targets

The Company prepares estimates of future production and total cash costs of production for its operations. Many unforeseen factors both related and unrelated to the project such as the raw cost of inputs, regulatory factors, foreign exchange fluctuations, adverse environmental conditions, natural phenomena, and industrial accidents, can impact the accuracy of these projections. As such, no assurance can be given that production cost estimates will be achieved. Failure to achieve production or total cash cost estimates could have an adverse impact on future cash flows, earnings and financial condition.

Reserve Risk

The figures for mineral resources contained herein are estimates only and no assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. There are numerous uncertainties inherent in estimating mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. In addition, there can be no assurance that gold, silver or copper recoveries in small scale laboratory tests will be duplicated in larger scale tests under on-site conditions or during production.

Fluctuation in gold, silver or copper prices, results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may require revision of such estimate. The volume and grade of reserves mined and processed and recovery rates may not be the same as currently anticipated. Any material reductions in estimates of mineral resources could have a material adverse effect on the Company's results of operations and financial condition.

Environmental Risks and Hazards

All phases of the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on the properties on which the Company holds interests which are unknown to the Company at present and which have been caused by previous or existing owners or operators of the properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations or in the exploration or development of mineral properties may be required to compensate those

suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

GLOSSARY OF KEY TERMS

Units of Measure		Acronyms	
Abbreviations			
a	annum	CIL	carbon in leach
Ag	silver	DFS	definitive feasibility study
Au	gold	DSU	deferred share unit
Cu	copper	EBRD	European Bank for Reconstruction and Development
dmt	dry metric tonnes	EIA	environmental impact assessment
Eq	equivalent	EPA	Environmental Protection Act
g	grams	LME	London Metal Exchange
g/t	grams per tonne	MoEW	Ministry of the Environment and Waters
kt	thousands of tonnes	MPF	metals production facility
lbs	pounds	POX	pressure oxidation technology
mt	millions of tonnes	SAG	semi autogenous grinding
oz	ounces	SX/EW	solvent extraction and electrowinning
t	tonnes	TMF	tailings management facility

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 most recent Annual Report and Annual Information Form, can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com and the Company website at www.dundeeprecious.com. Certain non-GAAP measures are discussed in this MD&A which are clearly disclosed as such.

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 "Risk Factors" which has been filed electronically by means of the Canadian Securities Administrators' website located at 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.

DUNDEE PRECIOUS METALS INC.

CONSOLIDATED BALANCE SHEETS

As at June 30, 2006 and December 31, 2005
(unaudited, in thousands of Canadian dollars)

	June 30, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 73,061	\$ 77,541
Accounts receivable and other assets (note 3)	46,549	15,143
Inventories (note 4)	13,162	12,051
Total current assets	132,772	104,735
Investments (market value-\$186,218; December 2005 – \$184,690) (note 5)	82,658	91,467
Other long-term assets (note 6)	1,650	1,204
Property, plant & equipment (note 7)	169,759	134,241
Future income tax asset	10,372	6,262
Total assets	\$ 397,211	\$337,909
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 26,857	\$ 13,320
Current portion of long-term debt (note 8)	1,395	–
Current portion of other long-term liabilities (note 9)	130	448
Total current liabilities	28,382	13,768
Long-Term Liabilities		
Long-term debt (note 8)	9,767	11,630
Reclamation and other long-term liabilities (note 9)	10,047	9,649
Long-term compensation (note 13)	5,054	4,109
Future income tax liability	10,556	6,572
Total long-term liabilities	35,424	31,960
SHAREHOLDERS' EQUITY		
Share capital (note 12a)	192,646	190,666
Contributed surplus (note 12b)	5,548	4,260
Retained earnings	135,211	97,255
Total shareholders' equity	333,405	292,181
Total liabilities and shareholders' equity	\$ 397,211	\$337,909

Contingent liabilities and commitments (note 10)

Subsequent events (note 16)

See accompanying notes to the unaudited consolidated financial statements.

DUNDEE PRECIOUS METALS INC. CONSOLIDATED STATEMENTS OF EARNINGS

For the three and six months ended June 30, 2006 and 2005
(unaudited, in thousands of Canadian dollars, except per share amounts)

	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Mining operations				
Gold/copper concentrate revenue	\$ 41,138	\$ 10,805	\$ 60,910	\$ 22,440
Cost of sales	12,514	9,467	22,203	21,227
Gross profit	28,624	1,338	38,707	1,213
Investment income				
Dividends, interest and other income	418	129	766	250
Net realized gain on sale of investments	25,681	185	25,697	2,519
Loss on copper puts	(386)	–	(386)	–
Impaired investments written down to market	(73)	–	(73)	(1,629)
Gross investment income	25,640	314	26,004	1,140
Net earnings before expenses and income taxes	54,264	1,652	64,711	2,353
Expenses				
Administrative and other expenses	4,190	1,986	6,759	3,484
Stock based compensation expense	790	892	2,833	1,930
Exploration expense	3,963	1,036	5,322	1,372
Amortization of property, plant and equipment	296	120	547	208
Financing and other costs	1,566	316	1,785	614
Foreign exchange loss	1,326	1,409	1,490	477
Total expenses	12,131	5,759	18,736	8,085
Earnings (loss) before income taxes	42,133	(4,107)	45,975	(5,732)
Provision for (recovery of) income taxes (note 11)				
Current	7,562	(2,796)	8,104	(3,114)
Future	319	2,453	(85)	2,657
Total provision for (recovery of) income taxes	7,881	(343)	8,019	(457)
Net earnings (loss) for the period	\$ 34,252	\$ (3,764)	\$ 37,956	\$ (5,275)
Basic net earnings (loss) per share	\$ 0.64	\$ (0.07)	\$ 0.71	\$ (0.10)
Diluted net earnings (loss) per share	\$ 0.61	\$ (0.07)	\$ 0.68	\$ (0.10)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the three and six months ended June 30, 2006 and 2005
(unaudited, in thousands of Canadian dollars)

	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Balance at beginning of period	\$ 100,959	\$ 75,854	\$ 97,255	\$ 77,365
Net earnings (loss)	34,252	(3,764)	37,956	(5,275)
Balance at end of period	\$ 135,211	\$ 72,090	\$ 135,211	\$ 72,090

See accompanying notes to the unaudited consolidated financial statements.

DUNDEE PRECIOUS METALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOW

For the three and six months ended June 30, 2006 and 2005

(unaudited, in thousands of Canadian dollars)

	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ 34,252	\$ (3,764)	\$ 37,956	\$ (5,275)
Non-cash charges (credits) to earnings				
Amortization of property, plant and equipment	1,995	1,447	4,003	2,722
Stock based compensation expense	790	892	2,833	1,930
Gain on sale of investments	(25,680)	(185)	(25,697)	(2,519)
Write down of investments to market value	73	–	73	1,629
Future income taxes	319	2,453	(85)	2,657
Loss on copper puts	386	–	386	–
Other non-cash charges	(484)	(1,062)	(203)	(880)
Changes in non-cash working capital				
Increase in accounts receivable	(7,412)	(3,985)	(24,463)	(3,400)
Decrease (increase) in inventories	1,222	562	(1,111)	(72)
Increase in other assets	(5,640)	(2,037)	(7,775)	(3,067)
Increase in accounts payable	12,326	4,831	13,537	3,333
Decrease in other liabilities	(195)	–	(316)	–
Net cash provided by (used in) operating activities	11,952	(848)	(862)	(2,942)
INVESTING ACTIVITIES				
Purchase of investments	(23,981)	(6,999)	(29,846)	(9,689)
Proceeds on sale of investments	63,936	2,989	63,956	5,998
Acquisition of mineral properties	(100)	–	(100)	(16,819)
Exploration and development costs capitalized	(15,800)	(9,023)	(32,914)	(14,138)
Acquisition of plant and equipment	(3,763)	(5,731)	(6,094)	(8,373)
Net cash provided by (used in) investing activities	20,292	(18,764)	(4,998)	(43,021)
FINANCING ACTIVITIES				
Issue of common shares	972	–	1,380	–
Proceeds of debt financing	–	11,706	–	11,706
Debt retired	–	–	–	(4,770)
Net cash provided by financing activities	972	11,706	1,380	6,936
Increase (decrease) in cash and equivalents	33,216	(7,906)	(4,480)	(39,027)
Cash and equivalents at beginning of period	39,845	38,707	77,541	69,828
Cash and equivalents at end of period	\$ 73,061	\$ 30,801	\$ 73,061	\$ 30,801
Supplemental Disclosures				
Interest paid (received)	\$ (261)	\$ 208	\$ (406)	\$ 443
Taxes paid	\$ 692	\$ –	\$ 1,339	\$ –

See accompanying notes to the unaudited consolidated financial statements.

DUNDEE PRECIOUS METALS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2006
(unaudited, in thousands of Canadian dollars, unless otherwise indicated)

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of the financial statements is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements for the year ended December 31, 2005, since they 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. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments and commodities contracts

Put option contracts may be used to hedge the effect of price changes on a portion of the metals sold by the Company. These derivative contracts, which represent a right but not an obligation to sell, are not designated as hedges and are initially recorded on the balance sheet at cost. Subsequent gains and losses arising from changes in market value on these contracts are charged or credited to earnings in the period in which they occur.

3. ACCOUNTS RECEIVABLE AND OTHER ASSETS

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Accounts Receivable	\$ 35,779	\$ 11,316
Copper puts <i>(note 14)</i>	6,863	-
Prepaid expenses	3,623	3,543
Restricted guaranteed investment certificate (GIC) <i>(a)</i>	284	284
	\$ 46,549	\$ 15,143

(a) The GIC is restricted and held as collateral for several suppliers until its maturity on May 4, 2007.

4. INVENTORIES

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Gold/copper ore & concentrate	\$ 6,804	\$ 5,848
Spare parts & supplies	6,358	6,203
	\$ 13,162	\$ 12,051

5. INVESTMENTS

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

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Investments at cost, beginning of period	\$ 91,467	\$ 117,640
Cost of investments purchased during the period	8,428	22,778
Cost of investments sold during the period		
Proceeds from sales	(42,538)	(68,982)
Net realized gain on sale of investments	25,697	33,801
Impaired investments written down to market	(73)	(13,720)
Loss on equity investments	(323)	(50)
Investments at cost, end of period	\$ 82,658	\$ 91,467

Included in investments at cost is \$5.1 million representing investments that are accounted for by the equity method. The Company's share of the loss on equity investments was \$219,000 and \$323,000 for the three and six months ended June 30, 2006, respectively, and included in loss on equity investments and charged to other income for the period ending June 30, 2006.

6. OTHER LONG-TERM ASSETS

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Escrow deposit for asset retirement obligation	\$ 1,324	\$ 810
Deferred financing charges	309	318
Other	17	76
	\$ 1,650	\$ 1,204

7. PROPERTY, PLANT AND EQUIPMENT

(in thousands of Canadian dollars)

As at	June 30, 2006			December 31, 2005		
	Cost	Accumulated Depreciation & Depletion	Net Book Value	Cost	Accumulated Depreciation & Depletion	Net Book Value
Mineral properties						
Chelopech	\$ 44,044	\$ 3,951	\$ 40,093	\$ 23,463	\$ 3,053	\$ 20,410
Krumovgrad	47,643	111	47,532	45,350	81	45,269
Back River	31,574	-	31,574	20,931	-	20,931
	123,261	4,062	119,199	89,744	3,134	86,610
Buildings, plant and equipment						
Chelopech	59,038	12,426	46,612	53,587	9,707	43,880
Krumovgrad	3,260	309	2,951	2,832	201	2,631
Corporate	1,507	510	997	1,384	264	1,120
	63,805	13,245	50,560	57,803	10,172	47,631
	\$ 187,066	\$ 17,307	\$ 169,759	\$147,547	\$13,306	\$134,241

8. LONG-TERM DEBT

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Long-term debt	\$ 11,162	\$ 11,630
Less: current portion	1,395	–
	\$ 9,767	\$ 11,630

On April 6, 2005, Chelopech Mining EAD, a wholly-owned subsidiary of the Company, obtained a US\$10.0 (Cdn\$11.7) million loan from the European Bank for Reconstruction and Development. The loan is secured by the Chelopech Mine assets 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.

9. RECLAMATION AND OTHER LONG-TERM LIABILITIES

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Asset retirement obligations	\$ 9,920	\$ 9,524
Long-term leases	130	448
Other	127	125
	10,177	10,097
Less: current portion	130	448
	\$ 10,047	\$ 9,649

Asset retirement obligations as at June 30, 2006 were \$9.9 million (2005 - \$9.5 million), which reflects the net present value of the Chelopech mine site closure obligations. During the three and six month period ending June 30, 2006, accretion expense of \$0.2 million and \$0.4 million (2005 - \$0.2 million and \$0.4 million) was recognized in each period, respectively.

The anticipated cash flows 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.

Lease liabilities are 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%.

10. CONTINGENT LIABILITIES AND COMMITMENTS

Concession Obligations

The Company has committed to make capital investments of US\$10.5 million in the underground facilities of the Chelopech mine. As at June 30, 2006, the Company has spent US\$32 million in satisfaction of the above concession obligation.

In addition, a concession fee of 1.5% of the current value of the ore extracted 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\$1,186,000 (CAD\$1,324,000) is included in other long-term assets (see note 6).

Gold/Copper Concentrate Sales

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

Dry metric tons	
2006	85,000
2007	60,000
	145,000

In 2006, 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.

11. INCOME TAXES

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

<i>(in thousands of Canadian dollars)</i>	Three months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Combined federal and provincial statutory income tax rates	36.12%	36.12%	36.12%	36.12%
Income tax at statutory rates	\$ 15,218	\$ (1,483)	\$ 16,559	\$ (2,071)
Adjusted for the effect of:				
Non-taxable portion of capital gains	(4,638)	(33)	(4,641)	(455)
Investments written down	237	–	237	294
Lower rate on foreign earnings	(3,988)	900	(5,561)	2,222
Non-deductible stock compensation expenses	348	271	682	(451)
Other, net	704	2	743	4
Provision for (recovery of) income taxes	\$ 7,881	\$ (343)	\$ 8,019	\$ (457)

12. SHAREHOLDER'S EQUITY

a) Common Stock

Authorized

Unlimited common shares without par value

Issued

<i>(in thousands of Canadian dollars)</i>	June 30, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Balance at beginning of period	53,739,007	\$ 190,666	53,639,675	\$189,971
Shares issued on exercise of stock options	185,999	1,380	99,332	695
Transferred from contributed surplus on exercise of stock options	–	600	–	–
Balance at end of period	53,925,006	\$ 192,646	53,739,007	\$190,666

The weighted average number of shares used to calculate net income per share during the three and six month period ended June 30, 2006 were 53,907,532 and 53,824,057, respectively, for basic net income per share and 56,054,662 and 55,676,300, respectively, for diluted net income per share. (Three and six months ended June 30, 2005 – 53,639,675 for basic net income per share, and 54,102,768 and 54,083,824 for diluted net income per share for the three and six month period ended June 30, 2005, respectively.)

b) Contributed Surplus

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

<i>(in thousands of Canadian dollars)</i>	June 30, 2006	December 31, 2005
Balance at beginning of period	\$ 4,260	\$1,072
Stock based compensation expense	1,888	3,188
Transferred to capital stock on exercise of stock options	(600)	-
Balance at end of period	\$ 5,548	\$4,260

c) Stock Based Compensation

During the period ended December 31, 2004, the Company established an incentive stock option plan for the directors and selected employees. Pursuant to the plan, the exercise price of the option cannot be less than the market price of the common stock on the trading date preceding the day the option is granted. Under the plan, an aggregate of 6,500,000 shares from treasury were made available. Options vest over a three year period and expire five years after the date of grant.

Total stock options outstanding for the periods ending June 30, 2006 and December 31, 2005 were:

	Six Months Ended June 30, 2006		Twelve Months Ended December 31, 2005	
	Options (number)	Weighted Average Exercise Price	Options (number)	Weighted Average Exercise Price
Balance at beginning of period	5,096,667	\$ 7.35	4,460,000	\$ 7.00
Granted	260,000	13.08	1,010,000	8.42
Exercised	(185,999)	7.40	(99,332)	7.00
Cancelled or expired	(66,667)	7.69	(274,001)	7.44
Balance at end of period	5,104,001	\$ 7.62	5,096,667	\$ 7.35

Range of exercise prices	Options outstanding		Options exercisable		
	Number outstanding as at June 30, 2006	Weighted average contractual life (years)	Weighted average exercise price	Number exercisable as at June 30, 2006	Weighted average exercise price
\$7.00	4,032,334	2.67	\$7.00	2,633,988	\$7.00
\$7.70-\$14.35	1,071,667	4.28	\$9.96	99,996	\$8.30
\$7.00-\$14.35	5,104,001	3.01	\$7.62	2,733,984	\$7.05

The fair value of options granted during the six months ended June 30, 2006 was estimated using a Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	4.14%-4.21%
Expected life in years	4.75
Expected volatility	42.4%-43.1%
Dividends per share	-

During the three months ended June 30, 2006, the Company granted 65,000 stock options with a value of \$0.4 million. During the six months ended June 30, 2006, 260,000 stock options with a value of \$1.4 million were granted. The total number of shares issued pursuant to outstanding stock options exercised for the three and six months ended June 30, 2006 were 127,666 and 185,999, respectively.

The estimated value of the options granted will be recognized over the vesting period. As at June 30, 2006, there is \$4.8 million (2005 - \$6.3 million) remaining to be charged to income in future periods relating to stock option grants.

13. LONG-TERM COMPENSATION

During the fourth quarter ended December 31, 2004, the Company 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. During the quarter, no DSU's were granted (2005 - 9,090) under the Employee DSU Plan and there was no stock compensation expense recognized (2005 - \$75,000). The outstanding DSU's were marked to market at June 30, 2006, and, as a result of the decline in the market value of the Company's shares during the period, \$230,500 (2005 - \$16,900 charge) was credited to earnings during the quarter and a charge of \$749,000 (2005 - \$212,000) for the six months ended June 30, 2006.

Under the Director DSU Plan, effective January 1, 2005, directors 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 quarter, 6,342 DSU's were granted (2005 - 6,126) under the Director DSU Plan and \$76,100 (2005 - \$49,300) was recognized as stock based compensation expense. The outstanding DSU's were marked to market at June 30, 2006, and, as a result, \$18,400 (2005 - \$nil) was credited to earnings during the quarter and a charge of \$44,600 (2005 - \$270) for the six months ended June 30, 2006.

14. FINANCIAL INSTRUMENTS

The carrying value of the Company's short-term financial instruments, comprised of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and note payable, approximate their fair values due to their short-term nature.

During the second quarter of 2006, the Company purchased copper put options in the aggregate amount of US\$6.5 million (Cdn\$7.2 million) giving the Company the right, but not the obligation to sell up to 11,825 mt of copper concentrate at US\$2.50/lb. These options are in place over the period October 2006 - December 2007 and mature evenly by month over this time period. These instruments allow the Company to protect itself against the potential decline in the value of copper. These financial instruments can be sold at any time prior to their maturity. The Company has not applied hedge accounting for these financial instruments and accordingly, adjustments to the fair value of these puts amounting to a loss of US\$0.3 million (Cdn\$0.4 million) has been recorded as a loss on the statement of earnings.

The carrying value of the Company's long-term note payable approximates its fair value.

15. SEGMENTED INFORMATION

The Company has two basic segments, a Canadian based corporate and investment business, and Bulgarian, Canadian and Serbian based mining and exploration operations.

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

(in thousands of Canadian dollars)

	Three Months		Six Months	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net revenue				
Mining operations	\$ 28,624	\$ 1,338	\$ 38,707	\$ 1,213
Investments	25,640	314	26,004	1,140
	\$ 54,264	\$ 1,652	\$ 64,711	\$ 2,353
Net income (loss)				
Mining operations	\$ 24,661	\$ 302	\$ 33,385	\$ (159)
Investments	25,640	314	26,004	1,140
Net income of combined segments	50,301	616	59,389	981
Corporate	(6,842)	(3,314)	(11,924)	(6,236)
Foreign exchange loss	(1,326)	(1,409)	(1,490)	(477)
Income tax recovery (provision)	(7,881)	343	(8,019)	457
Net income (loss)	\$ 34,252	\$ (3,764)	\$ 37,956	\$ (5,275)
Capital expenditures				
Mining	\$ 19,663	\$ 14,754	\$ 39,108	\$ 39,330
	June 30, 2006	December 31, 2005		
Assets				
Cash	\$ 73,061	\$ 77,541		
Mining operations	226,721	161,572		
Investments at cost	97,429	98,796		
	\$ 397,211	\$ 337,909		
	June 30, 2006	December 31, 2005		
Assets				
Canada	\$ 181,333	\$ 185,260		
Bulgaria	215,878	152,649		
	\$ 397,211	\$ 337,909		

16. SUBSEQUENT EVENTS

On July 25, 2006, DPM announced it had completed the purchase for a 100% interest in the Back River Project in Nunavut for US\$6.0 million (Cdn\$6.8 million). DPM has incurred exploration expenditures of \$31.6 million on the property to the end of June 30, 2006 under the previous option agreement.

17. COMPARATIVE FIGURES

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

Corporate Information

Directors

Colin K. Benner ⁽⁴⁾

Vancouver, British Columbia

Derek H. L. Buntain ⁽⁴⁾

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

Michael J. Cooper ⁽¹⁾⁽³⁾

Toronto, Ontario

Jonathan C. Goodman

Toronto, Ontario

Ned E. Goodman

Innisfil, Ontario & Saint-Sauveur,
Québec

Murray John ⁽⁴⁾

Toronto, Ontario

John W. Lydall ⁽²⁾⁽³⁾

Oakville, Ontario

Garth A. C. MacRae ⁽¹⁾⁽⁴⁾

Toronto, Ontario

Peter B. Nixon ⁽²⁾⁽³⁾

Keswick, Ontario

Ronald Singer ⁽¹⁾⁽³⁾

Montréal, Québec

Brian J. Steck ⁽¹⁾

Stouffville, Ontario

William G. Wilson ⁽²⁾

Vancouver, British Columbia

(1) Audit Committee

(2) Compensation Committee

*(3) Corporate Governance
& Nominating Committee*

*(4) Health, Safety & Environment
Committee*

Executive Head Office

Dundee Precious Metals Inc.

Suite 3060, Royal Bank Plaza
South Tower, 200 Bay Street
P.O. Box 30, Toronto, Ontario,
Canada M5J 2J1

Tel: (416) 365-5191

Fax: (416) 365-9080

Email: info@dundeeprecious.com

www.dundeeprecious.com

Officers

William G. Wilson

Chairman

Jonathan C. Goodman

President and Chief Executive Officer

Dr. Julian Barnes

Executive Vice President

Lori E. Beak

Vice President and Secretary

C. Bruce Burton

*Vice President and Chief Financial
Officer*

Adrian Goldstone

*Vice President, Environment and
Sustainable Development*

Sean M. Hasson

Vice President, Exploration

Laurence Marsland

*Executive Vice President
and Chief Operating Officer*

Gabriela Sanchez

Vice President, Investor Relations

Jeffrey Pennock

Corporate Controller

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 Investor
Services Inc.**

100 University Avenue, 9th floor
North Tower, Toronto, Ontario M5J 2Y1
Tel: (514) 982-7555
Tel (Toll Free): (800) 564-6253
Fax: (416) 263-9394
Fax (Toll Free): (888) 453-0330
Email: service@computershare.com



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