



# DUNDEE

PRECIOUS METALS INC.

*DPM: TSX DPM: TSX DPM:*



## Third quarter report

nine months ended

September 30, 2005



# DUNDEE

PRECIOUS METALS INC.

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

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

This information is provided as at November 4, 2005.

## HIGHLIGHTS

- Financial position remains strong; working capital of \$90.4 million plus investment portfolio with market value of \$136.6 million equate to \$4.23 per share.
- Production targets at Chelopech being met. Ore production reached annualized rate of over 884,000 tonnes as of September 30, 2005 and mine is operating at profitable level for second consecutive quarter, primarily due to higher commodity prices and improved metal recoveries and grades.
- Definitive Feasibility Study to evaluate metal production at Chelopech using pressure oxidation process expected by year end as final test work now successfully completed. Environmental Impact Assessment filed with the Bulgarian Ministry of the Environment and Waters in early November.
- In September, the Company submitted formal response to the Bulgarian Ministry of the Environment and Waters addressing all issues raised during public consultation hearings held in August in Krumovgrad. Response from the Ministry to the Environmental Impact Assessment expected in November. To maintain current schedule, the engineering and procurement phase of the project commenced in October.
- DPM on schedule to earn a 60% interest in the Back River Project. Summer site exploration program successfully completed at both the Goose and George Lake properties. Company initiated detailed geological review to evaluate potential of additional mineralized zones within the Back River Project.

## CORPORATE OVERVIEW

Dundee Precious Metals Inc. ("DPM" or the "Company") is a Canadian based, international mining company engaged in the acquisition, exploration, development and mining of precious metals. Its common shares (symbol DPM) are traded on the Toronto Stock Exchange ("TSX").

During 2003, the Company acquired a gold/copper mine ("Chelopech Mine"), an advanced gold exploration property ("Krumovgrad Gold Project") and additional exploration properties in Bulgaria. Subsequently, the Company initiated the expansion and redevelopment of the Chelopech Mine and has filed an Environmental Impact Assessment ("EIA") in connection with a plan to convert from concentrate to metal production at site. The Company has also completed a Definitive Feasibility Study ("DFS") and filed an EIA related to the development and operation of the Krumovgrad Gold Project.

DPM converted from a closed-end investment company to an active mining company on April 1, 2004, at which time the Bulgarian mining assets were consolidated into the Company's financial statements.

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

DPM also holds a significant investment portfolio of marketable securities of mining companies, principally focused on the exploration, development and production of precious metals throughout the world, with a market value of approximately \$136.6 million and has cash on hand of approximately \$64.5 million as at September 30, 2005.

## OUTLOOK

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

The Chelopech Mine is currently profitable, primarily due to higher metal prices and improved metal recoveries, while undertaking a significant redevelopment of its mining and processing methods and capacities. Quarterly variability in its operating results will continue until all redevelopment planning is completed and the changes are effected. In addition, due to the continuing oversupply conditions in the concentrate markets, Chelopech has deferred its planned increase in mining rates. The production rate increase will now coincide with the expected completion of the pressure oxidation plant and the expansion of the mill's processing capacity. The Company will maintain its production levels such that it fulfills all its obligations under its existing concentrate sales contracts.

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

The DFS for the Krumovgrad Gold Project was accepted by DPM's Board of Directors in July, 2005. The Company filed an EIA with the Bulgarian Ministry of the Environment and Waters ("MoEW") in April 2005 and is focusing on obtaining the necessary government and community approvals. Engineering and procurement activities commenced in October.

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

## REVIEW OF BUSINESS ACTIVITIES

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

### Mining Development Activities

#### CHELOPECH

##### *Pressure Oxidation Plant*

The Company has completed the additional test work required to confirm gold and copper recoveries from representative ore samples at Chelopech. The DFS to evaluate on site metal production using pressure oxidation technology at Chelopech is being finalized for presentation to the Board of Directors by year end.

In November, an EIA related to the Chelopech processing conversion was filed with the MoEW.

##### *Redevelopment*

Underground development continues to be ahead of plan for the year. The conversion of mining methods to long hole open stoping commenced at the end of the second quarter and has accounted for the subsequent increase in ore production.

The Company acquired specialized equipment earlier this year to advance the decline from surface to the underground mine workings through difficult ground conditions and it is expected that the decline will be completed prior to the start-up of the pressure oxidation plant.

##### *Operations*

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

## Production

Ore mined over the three month period ended September 30, 2005 averaged 75,800 tonnes per month compared to an average of 53,100 tonnes per month mined in the prior year comparable period.

In the third quarter, ore grades and recoveries improved over both prior quarter and comparable quarter last year. Due to excessive rainfall in the latter half of the second quarter and the beginning of the third quarter, access to the higher grade areas had been restricted.

## Production and Unit Cost Summary

	<b>Three Months</b>	Three Months	<b>Nine Months</b>
	<b>Sept. 30,</b>	Sept. 30,	<b>Sept. 30,</b>
<i>(in US\$ except as otherwise stated)</i>	<b>2005</b>	2004	<b>2005</b>
Ore mined (mt)	<b>227,400</b>	159,163	<b>662,771</b>
Ore processed (mt)	<b>217,194</b>	156,813	<b>624,644</b>
Head grade			
Copper (%)	<b>1.78</b>	1.40	<b>1.57</b>
Gold (g/mt)	<b>4.72</b>	3.21	<b>4.23</b>
Concentrate produced (m/t)	<b>19,309</b>	11,032	<b>48,432</b>
Metals contained in concentrate			
Copper (lbs)	<b>7,061,459</b>	4,014,613	<b>17,576,543</b>
Copper (% recovered)	<b>82.6%</b>	82.8%	<b>81.4%</b>
Gold (ounces)	<b>17,257</b>	8,053	<b>39,674</b>
Gold (% recovered)	<b>52.3%</b>	49.7%	<b>46.7%</b>
<b>Cash cost per tonne of ore processed</b>	<b>\$ 33.86</b>	\$ 35.00	<b>\$ 33.67</b>
<b>Cash cost per pound of copper in concentrate <sup>(1)</sup></b>	<b>\$ 0.57</b>	\$ 0.80	<b>\$ 0.67</b>
<b>Cash cost per ounce of gold in concentrate <sup>(1)</sup></b>	<b>\$ 152</b>	\$ 255	<b>\$ 186</b>

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

(2) The Company did not report as a mining company until April 2004, consequently there are no 2004 comparatives for the nine months ending September of 2004.

Ore mined at the end of September 2005 is ahead of expectation and it is anticipated that the mine will meet or exceed the current year target.

## Sales

Third quarter sales were lower than expected, due to a shipment delay. Sales totalling 9,518 tonnes of concentrate were completed in the quarter and 20,574 tonnes of concentrate were in inventory at September 30, 2005. It is anticipated that the shortfall in concentrate sales will be eliminated in the fourth quarter when the annual commitments are fulfilled. In October, sales of 9,071 tonnes of concentrate were completed.

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

## Sales Summary

<i>(in US\$ except as otherwise stated)</i>	<b>Three Months Sept. 30, 2005</b>	Three Months Sept. 30, 2004	<b>Nine Months Sept. 30, 2005</b>
<b>Sales</b>			
Sales (per financial statements – CDN)	<b>\$ 7,656</b>	\$ 4,673	<b>\$ 30,096</b>
Sales (US)	<b>\$ 6,382</b>	\$ 3,573	<b>\$ 24,049</b>
Concentrate (dmt)	<b>9,518</b>	7,355	<b>39,219</b>
Copper in concentrate (lbs)	<b>3,358,638</b>	2,640,401	<b>14,061,305</b>
Gold in concentrate (ounces)	<b>7,050</b>	5,833	<b>32,459</b>
Average realized copper price (\$'s per lb)	<b>\$ 1.70</b>	\$ 1.25	<b>\$ 1.49</b>
Average realized gold price (\$'s per ounce)	<b>\$ 439</b>	\$ 395	<b>\$ 426</b>
<b>Cost of Sales</b>			
Cost of sales (per financial statements – CDN)	<b>\$ 6,158</b>	\$ 4,953	<b>\$ 27,384</b>
Cost of sales (US)	<b>\$ 4,990</b>	\$ 3,761	<b>\$ 21,924</b>
Deduct/Add:			
Depreciation	<b>(498)</b>	(542)	<b>(2,523)</b>
Royalties	<b>(219)</b>	(112)	<b>(932)</b>
By-product of silver sales	<b>(162)</b>	(74)	<b>(603)</b>
Non-cash adjustment	<b>–</b>	–	<b>246</b>
Total cash costs per Gold Institute Standard	<b>\$ 4,111</b>	\$ 3,033	<b>\$ 18,111</b>
<b>Cash cost per pound of copper sold in concentrate <sup>(1)</sup></b>	<b>\$ 0.78</b>	\$ 0.68	<b>\$ 0.78</b>
<b>Cash cost per ounce of gold sold in concentrate <sup>(1)</sup></b>	<b>\$ 211</b>	\$ 214	<b>\$ 220</b>

(1) Cash costs per unit are based on Gold Institute Production Cost Standard (a non-GAAP measure). Gold and copper are accounted for as co-products. Copper sales are converted into gold sales using the ratio of the average gold value to the average copper value for the period to calculate the cash cost per ounce of gold sold, and gold sales reconverted into copper sales using the ratio of the average copper price to the average gold price to calculate the cash cost per pound of copper sold. The calculations of total cash costs are net of by-product silver sales revenue.

(2) The Company did not report as a mining company until April 2004 and changed its year end from January to December, consequently there are no comparatives for the nine months ending September of 2004.

During the three and nine months ended September 30, 2005, total cost of sales aggregated \$6.2 million and \$27.4 million respectively. During the three month period ended September 30, 2004, total cost of sales aggregated \$5.0 million.

## KRUMOVGRAD

An EIA for the Krumovgrad Gold Project (the "Project"), prepared in accordance with Bulgarian legislation and well within European Union guidelines, was submitted to the Bulgarian MoEW in April, 2005. The process of obtaining the necessary government and regional approvals continues in order to acquire the land required for construction of the mining facilities and to construct and operate the mine. A favourable response from the Bulgarian MoEW is necessary to proceed to register a commercial discovery and obtain a mining concession. In addition, DPM will be required to submit a detailed development plan to the local municipality to obtain the necessary permits to construct and operate the mining and processing facilities.

In July 2005, the Company's Board of Directors accepted the DFS to construct the mine at Krumovgrad at an estimated cost of US\$75 million. The DFS confirmed the economic viability of the Project and sets out the plans for the construction of the mining facilities and the process required to obtain the necessary permits and approvals to operate the mine.

As part of the EIA approval process, public hearings were held in the community of Krumovgrad in August at which the local officials expressed both their support of and concerns about the Project. Subsequent to the meeting, the Municipal Council passed a resolution opposing the Project on the basis that there were insufficient guarantees to ensure the planned protection of the environment. The Municipal Council forwarded a petition to the MoEW expressing its concern over the issue of guarantees. Several non-governmental organizations have also voiced opposition to the Project whereas others have been generally supportive. Technical experts commissioned by the Municipality and the opposition group generally endorsed the EIA.

The EIA, coupled with DPM's responses to issues raised during the public consultation process, have been submitted to the MoEW following the hearings and is currently undergoing a final review by the MoEW. The EIA fully meets, and in certain aspects exceeds, the Bulgarian environmental standards and is well within existing European Union environmental guidelines and also the proposed new directives. DPM expects a response from the MoEW in November. As soon as the EIA is approved, DPM intends to meet with the Municipal Council to address their specific concerns about the environmental guarantees.

The Company believes that the Project has been designed in a manner that will address the concerns of the local community. In addition, DPM believes that the region hosts favourable geology and that mining could be a catalyst for future environmentally sound development that would provide local employment and complements the agricultural economy that forms the basis of the primary industry in this region today.

Mobilization for the detailed engineering and procurement phase has begun with the hiring of a project manager and finalization of the Engineering, Procurement, Construction and Management contract. Exploration and resource definition work is continuing at satellite locations near the Project to establish additional resources to process at the Krumovgrad facilities. Discussions have also begun with the European Bank for Reconstruction and Development with respect to arranging financing for the Project.

## **EXPLORATION**

### **BACK RIVER PROJECT**

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

The Company is nearing completion of the exploration program for 2005, having completed over 15,800 metres of diamond drilling to date. The objectives for the year are to better define the resources at the Goose Lake and George Lake gold deposits through an in-fill drilling program; to recompile and audit the entire Back River database; to refine and improve the understanding of the key ore controls; and to implement the Company's quality assurance protocols. In addition, the Company has initiated a detailed geological review to evaluate the potential of additional mineralized zones within the Back River Project.

The camp is being closed as the summer exploration season has ended. Supplies have been brought in and stored for the winter program which is expected to begin next April. In the meantime, compilation of the results from the current program are continuing and planning for the next phase has begun.

In order to earn a 60% interest in the project, the Company must incur cumulative expenditures of \$25 million by August 31, 2006. The Company can extend the earn-in period to August 31, 2008 by increasing the cumulative earn-in requirement by \$3 million, provided the Company has incurred cumulative expenditures of \$15 million by August 31, 2006. As at September 30, 2005, the Company has eligible expenditures of approximately \$18.9 million.

### **OTHER EXPLORATION PROPERTIES**

The Company plans to continue the exploration of properties in the Balkans and other regions for gold resources and is evaluating other mining properties for possible acquisition. Grassroots exploration is continuing within the Central Rhodope and Western Bulgaria regions and the Company has applied for new exploration concessions.

## INVESTMENTS

### Summary

During the three and nine month period ended September 30, 2005, the Company realized \$31.9 million and \$34.4 million in pre-tax gains on sales of marketable securities, which provided cash proceeds of \$60.2 million and \$66.2 million, respectively.

During the comparative three and eight month period ended September 30, 2004, the Company realized net gains totalling \$0.4 million and \$41.6 million on sales of marketable securities, which provided cash proceeds of \$2.6 million and \$66.8 million, respectively.

In accordance with the Company's accounting policy, any decline in the market value of an individual security investment, which it believes is other than temporary, is written down to current market value. The Company has recorded a \$6.1 million and \$7.8 million write-down for the three and nine month period ended September 30, 2005, respectively. In the comparative eight month period ending September 30, 2004, the Company recorded write-downs of \$1.5 million.

As at September 30, 2005, the portfolio had a market value of approximately \$136.6 million. The three largest positions at market, were: Tahera Diamond Corporation – \$37.7 million; Miramar Mining Corporation – \$34.4 million, and Cambior Inc. – \$20.7 million. In the aggregate, these three investments represent 68% of the total market value of the portfolio.

## FINANCIAL RESULTS

### Results of Operations

The Company reported net income of \$19.0 million or \$0.35 per share and \$13.7 million or \$0.25 per share (fully diluted) for the three and nine months ended September 30, 2005 compared with a net loss of \$2.7 million or \$0.05 per share and net income of \$6.6 million or \$0.13 per share for the three and eight months ended September 30, 2004, respectively. The net incomes for the current periods were significantly impacted by the net gain on the sales of portfolio investments.

As the Company develops its mine operations, earnings have strengthened with margins of \$1.5 million and \$2.7 million, for the three and nine months ending September 30, 2005 respectively. Higher commodity prices and improved gold recoveries favourably impacted results.

	<b>Three Months</b>	Three Months	<b>Nine Months</b>	Eight Months <sup>(1)</sup>
	<b>Sept. 30,</b>	Sept. 30,	<b>Sept. 30,</b>	Sept. 30,
(Cdn\$ millions)	<b>2005</b>	2004	<b>2005</b>	2004
Revenue from mining operations				
Gold/copper concentrate	<b>\$ 7.7</b>	\$ 4.6	<b>\$ 30.1</b>	\$ 14.7
Cost of sales	<b>6.2</b>	4.9	<b>27.4</b>	13.7
Gross profit (loss)	<b>\$ 1.5</b>	\$ (0.3)	<b>\$ 2.7</b>	\$ 1.0
Net investment revenue	<b>\$ 25.9</b>	0.8	<b>27.1</b>	40.6
Net revenue	<b>\$ 27.4</b>	\$ 0.5	<b>\$ 29.8</b>	\$ 41.6
Expenses	<b>4.3</b>	4.0	<b>12.4</b>	38.3
Income taxes	<b>4.1</b>	(0.8)	<b>3.7</b>	(3.3)
Net income (loss)	<b>\$ 19.0</b>	\$ (2.7)	<b>\$ 13.7</b>	\$ 6.6
Net income (loss) per share				
Fully diluted	<b>\$ 0.35</b>	\$ (0.05)	<b>\$ 0.25</b>	\$ 0.13
Total assets	<b>\$ 330.7</b>	\$ 292.9	<b>\$ 330.7</b>	\$ 292.9
Total long-term liabilities	<b>\$ 29.4</b>	\$ 11.0	<b>\$ 29.4</b>	\$ 11.0

(1) The Company began consolidating the results from the mining operations on April 1, 2004, the effective date of conversion from an investment company to a mining company. Also, the Company changed its year end from January 31 to December 31 thus there are comparative figures only for eight months last year.

## **NET REVENUE**

Net revenue of \$27.4 million and \$29.8 million for the three and nine months ended September 30, 2005, respectively, resulted from the following:

- (1) the financial results of the Chelopech Mine for the three and nine month period ending September 30, 2005 which had an operating gain of \$1.5 million and \$2.7 million on the sale of 9,518 and 39,219 dry metric tonnes of gold/copper concentrate, respectively, and
- (2) investment income for the three and nine month period ended September 30, 2005 of \$25.9 million and \$27.1 million net of investment write-downs of \$6.1 million and \$7.8 million, respectively.

The Company consolidated the results of the mining business on April 1, 2004 and changed its year end from January to December; therefore, in the prior year, comparable period results from the mining operation are included only for the three and eight months ended September 30, 2004.

For the three months ended September 30, 2004, the mining business had an operating loss of \$0.3 million and net gains on sales of investments were \$0.4 million. For the eight months ended September 30, 2004, the mining business generated \$1.0 million in income from the six month period commencing April 1, 2004 when the results began to be consolidated, while net gains on sales of investments were \$41.6 million.

## **EXPENSES**

### ***Administrative and Other Expenses***

Administrative costs were \$1.5 million and \$5.0 million for the three and nine months ended September 30, 2005, respectively, compared to \$1.3 million and \$3.7 million for the three and eight month periods ending on the same day last year.

Administrative costs were up due to an increase in corporate staffing levels and business development activities associated with the Company's continuing transition to an international mining company.

### ***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.

During the three and nine month period, stock based compensation expense was \$1.3 million and \$3.2 million, respectively. Included in the three and nine months ended September 30, 2005 was \$0.5 million and \$0.9 million, respectively, related to the grant of DSU's. The DSU's vest immediately, are expensed at the time of grant and the outstanding liability is adjusted at each period end date to fair value based on the market price of DPM shares. The value of the stock options granted during the three and nine month period was \$0.1 million and \$1.7 million, respectively, calculated using a Black-Scholes model. The costs related to stock options are charged to operations over their three year vesting period.

Last year, in the three month and nine month periods ended September 30, 2004 the value of stock options granted was \$0.6 million and \$1.3 million was recognized as a stock option expense.

### ***Exploration Expense***

Grass roots exploration expense incurred for the three and nine months ended September 30, 2005 totalled \$1.6 million and \$3.0 million, respectively. Exploration during the period was centered on the Balkans.

Exploration activities at Back River, Chelopech and nearby the Krumovgrad Gold Project aggregated \$7.1 million and \$15.1 million for the three and nine months ended September 30, 2005, respectively, and have been capitalized to mineral properties.

## Foreign Exchange

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

## Cash Flow Summary

	Three Months Sept. 30, 2005	Three Months Sept. 30, 2004	Nine Months Sept. 30, 2005	Eight Months <sup>(1)</sup> Sept. 30, 2004
<i>(Cdn\$ millions)</i>				
Cash provided from (used in)				
Operating activities	\$ (5.3)	\$ (5.2)	\$ (8.2)	\$ (21.6)
Property, plant and equipment	(12.9)	(8.1)	(52.2)	(15.5)
Investment and other transactions	51.4	0.3	47.7	54.1
Financing activities	0.5	(3.2)	7.4	59.4
Total increase (decrease) in cash	\$ 33.7	\$ (16.2)	\$ (5.3)	\$ 76.4

(1) The Company began consolidating the results from the mining operations on April 1, 2004, the effective date of conversion from an investment company to a mining company. Also, the Company changed its year end from January 31 to December 31 thus there are comparative figures only for eight months last year.

## OPERATING ACTIVITIES

For the three and nine months ended September 30, 2005, the Company had operating cash requirements of \$5.3 million and \$8.2 million, respectively.

Net income (loss), adjusted for non-cash items, provided \$2.1 million and \$0.6 million in cash in the three and nine month periods, respectively; whereas, changes in non-cash working capital absorbed \$7.4 million and \$8.8 million in cash, respectively, primarily due to an increased level of concentrate and ore inventory at period end. Non-cash working capital will continue to fluctuate with the timing of concentrate sales and accounts payable at period end related to the level of development activities.

## CAPITAL EXPENDITURES (PROPERTY, PLANT AND EQUIPMENT)

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

### Property Plant and Equipment

	Acquisition Cost	Project Cost	Total Cost
<i>(Cdn\$ millions)</i>			
Back River (Nunavut, Canada)	\$ 9.1	\$ 9.8	\$ 18.9
Chelopech (Bulgaria)	20.3	47.5	67.8
Krumovgrad (Bulgaria)	30.0	16.9	46.9
Corporate	0.0	1.0	1.0
Total	\$ 59.4	\$ 75.2	\$ 134.6

### Chelopech

At Chelopech, \$6.8 million (US\$5.7 million) and \$20.5 million (US\$16.8 million) was spent during the three and nine months ended September 30, 2005, respectively, and \$47.5 million (US\$38.0 million) has been spent from the date of acquisition as follows:

### Chelopech Project Costs

<i>(US\$ millions)</i>	<b>Current Quarter Cost</b>	Year to Date Cost	Total Cost From Date of Acquisition
Project:			
Establishing reserves	<b>\$ 1.0</b>	\$ 1.3	\$ 3.4
Decline	<b>0.5</b>	1.4	5.6
Mine development	<b>1.6</b>	5.7	17.1
Mill development	<b>0.3</b>	0.9	1.7
Definitive feasibility study	<b>1.6</b>	6.3	7.2
Other	<b>0.7</b>	1.2	3.0
<b>Total</b>	<b>\$ 5.7</b>	<b>\$ 16.8</b>	<b>\$ 38.0</b>

### Krumovgrad

At Krumovgrad, \$1.6 million (US\$1.3 million) and \$5.3 million (US\$4.3 million) was spent during the three and nine months ended September 30, 2005, respectively, and \$16.9 million (US\$13.1 million) has been spent from the date of acquisition as follows:

#### Krumovgrad Project Costs

<i>(US\$ millions)</i>	<b>Current Quarter Cost</b>	Year to Date Cost	Total Cost From Date of Acquisition
Project:			
Reserve definition drilling	<b>\$ 0.0</b>	\$ 0.4	\$ 4.5
Definitive feasibility study	<b>0.4</b>	1.7	3.6
Project development	<b>0.7</b>	0.7	0.7
Other	<b>0.2</b>	1.5	4.3
<b>Total</b>	<b>\$ 1.3</b>	<b>\$ 4.3</b>	<b>\$ 13.1</b>

### Financing Activities

During the third quarter, the issuance of common shares on the exercise of stock options provided a total of \$0.5 million. During the second quarter, the Company completed a US\$10.0 million financing with the European Bank for Reconstruction and Development. The loan bears interest at LIBOR plus 1.9% and is repayable in eight semi-annual instalments commencing in June 2007.

During the first quarter of 2005, the Company repaid the US\$4.0 million note payable which was assumed as part of the acquisition of the Bulgarian mining assets in 2003.

### Liquidity

The Company has cash and marketable securities with a market value in excess of \$200 million as at September 30, 2005. These funds are more than sufficient to fund the Company's mining activities.

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

### Contractual Obligations

<i>(Cdn\$ thousands)</i>	Payments Due by Period				
	Up to Total	1-3 1 year	4-5 years	Over years	5 years
Long-term debt	\$ 11,627	\$ 0	\$ 4,463	\$ 5,731	\$ 1,433
Capital lease obligations	737	737	0	0	0
Operating lease obligations	3,544	1,022	1,176	577	769
<b>Total contractual obligations</b>	<b>\$ 15,908</b>	<b>\$ 1,759</b>	<b>\$ 5,639</b>	<b>\$ 6,308</b>	<b>\$ 2,202</b>

In relation to revenues, the Company has signed contracts with some customers with the commitment to ship the following minimum quantities of gold/copper concentrate over the next few years: 80,000 dry metric tonnes in 2005; 90,000 dry metric tonnes in 2006; and a further 80,000 dry metric tonnes in 2007.

## Financial Position

As at September 30, 2005, the Company had working capital of \$90.4 million and investments in publicly tradeable securities with a market value of \$136.6 million which in total equates to \$4.23 per share. In addition, the Company had mining assets with a book value totalling \$123.0 million partially offset by related long term liabilities of \$29.4 million.

## Quarterly Information

The Company's financial results for the three months ended September 30, 2005 reflect the activities of developing an operating mine in Chelopech and development projects in the Balkans and Nunavut. The periods from the third quarter of 2003 to the end of the first quarter of 2004 reflect the results of an investment management company only.

### Quarterly Summary

(Cdn\$ millions)	2005			2004				2003
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gold/copper concentrate sales	<b>7.7</b>	10.8	11.6	11.4	4.7	10.0	-	-
Cost of sales	<b>6.2</b>	9.4	11.7	13.2	5.0	8.7	-	-
Gross profit (loss)	<b>1.5</b>	1.4	(0.1)	(1.8)	(0.3)	1.3	-	-
Net investment revenue	<b>25.9</b>	0.3	0.8	10.9	0.8	14.6	25.2	16.0
Net revenue	<b>27.4</b>	1.7	0.7	9.1	0.5	15.9	25.2	16.0
Expenses	<b>(4.3)</b>	(5.8)	(2.3)	(7.6)	(4.0)	(4.3)	(0.8)	(4.1)
Termination fee	-	-	-	-	-	(29.2)	-	-
Income taxes	<b>(4.1)</b>	0.3	0.1	(0.2)	0.8	6.9	(4.4)	(3.5)
Net income (loss)	<b>19.0</b>	(3.8)	(1.5)	1.3	(2.7)	(10.7)	20.0	8.4
Net income (loss) per share	<b>0.35</b>	(0.07)	(0.03)	0.03	(0.05)	(0.20)	0.48	0.22

## Critical Accounting Estimates

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

## PROPERTY, PLANT AND EQUIPMENT

Capital assets (Property, Plant and Equipment) represent 37% of total assets at September 30, 2005. The application of accounting policies for these assets has a material impact on the Company's results. Amortization expense is based on the estimated useful lives of these assets. The carrying values of mining properties are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Impairment assessments are based on estimates of future cash flows, which include: the quantity of mineral reserves; future metal prices and future operating and capital costs to mine and process our reserves.

## ASSET RETIREMENT OBLIGATIONS

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

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

## **RISKS AND UNCERTAINTIES**

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

### **Political Risk**

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

### **Government laws and regulations**

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

### **Company Specific Factors**

#### **DEVELOPMENT PROJECTS**

DPM'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 economic feasibility of development projects is based upon many factors, including: the accuracy of reserve estimates; estimated metallurgical recoveries; estimated capital and operating costs of such projects; foreign currency exchange rates; and future gold and silver prices. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits, and the acquisition of satisfactory surface or other land rights.

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

#### **EXPLORATION**

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

#### **PRODUCTION AND OPERATING COST TARGETS**

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

#### **RESERVE RISK**

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

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

### **COMMODITY PRICE RISK**

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

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

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

### **FOREIGN CURRENCY RISK**

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

### **CREDIT RISK**

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

### **Other**

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

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

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

## Consolidated Balance Sheets

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

	Sept. 30, 2005	Dec. 31, 2004
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 64,486	\$ 69,828
Accounts receivable	10,194	6,597
Inventories (note 2)	17,189	11,768
Prepaid expenses	3,812	2,861
Income tax recoverable	10,980	13,432
<b>Total current assets</b>	<b>106,661</b>	104,486
<b>Future income tax asset</b>	<b>4,099</b>	2,812
<b>Deferred financing charges</b>	<b>339</b>	–
<b>Investments (market value – \$136,648; December 2004 – \$174,286) (note 3)</b>	<b>96,610</b>	117,640
<b>Property, plant &amp; equipment (note 4)</b>	<b>122,996</b>	73,706
<b>Total assets</b>	<b>\$ 330,705</b>	\$ 298,644
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 15,564	\$ 12,168
Current portion of long-term debt (note 5)	–	4,808
Current portion of long-term liabilities (note 6)	737	888
<b>Total current liabilities</b>	<b>16,301</b>	17,864
<b>Long-Term Liabilities</b>		
Long-term debt (note 5)	11,627	–
Other long-term liabilities (note 6)	230	251
Asset retirement obligations (note 9)	8,528	8,786
Long-term compensation (note 11)	3,660	2,805
Future income tax liability	5,342	530
<b>Total long term liabilities</b>	<b>29,387</b>	12,372
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 10)	190,476	189,971
Contributed surplus (note 10)	3,437	1,072
Retained earnings	91,104	77,365
<b>Total shareholders' equity</b>	<b>285,017</b>	268,408
<b>Total liabilities and shareholders' equity</b>	<b>\$ 330,705</b>	\$ 298,644

Contingent liabilities and commitments (note 7)

See accompanying notes to the unaudited consolidated financial statements.

## Consolidated Statements of Operations

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

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 Months Sept. 30, 2005	8 Months Sept. 30, 2004
<b>Mining operations</b>				
Gold/copper concentrate revenue	\$ 7,656	\$ 4,673	\$30,096	\$14,706
Cost of sales	6,158	4,953	27,384	13,696
<b>Gross profit (loss)</b>	<b>1,498</b>	(280)	<b>2,712</b>	1,010
<b>Investment income</b>				
Dividends, interest and other income	235	329	485	466
Net realized gain on sale of investments	31,867	448	34,385	41,566
Investments written-down	(6,132)	–	(7,761)	(1,495)
<b>Total investment income</b>	<b>25,970</b>	777	<b>27,109</b>	40,537
<b>Net revenue</b>	<b>27,468</b>	497	<b>29,821</b>	41,547
<b>Expenses</b>				
Administrative and other expenses	1,540	1,317	5,021	3,725
Stock based compensation expense	1,292	635	3,222	1,335
Exploration expense	1,635	1,316	3,007	1,434
Depreciation	321	297	529	394
Financing costs	155	223	770	481
Foreign exchange loss (gain)	(603)	233	(124)	1,162
Management and performance fees	–	–	–	29,791
<b>Total expenses</b>	<b>4,340</b>	4,021	<b>12,425</b>	38,322
<b>Income (loss) before income taxes</b>	<b>23,128</b>	(3,524)	<b>17,396</b>	3,225
<b>Provision for (recovery of) income taxes (note 8)</b>				
Current	3,361	(738)	1,708	(2,168)
Future	753	(95)	1,949	(1,163)
	<b>4,114</b>	(833)	<b>3,657</b>	(3,331)
<b>Net income (loss) for the period</b>	<b>\$19,014</b>	\$(2,691)	<b>\$13,739</b>	\$ 6,556
<b>Basic net income (loss) per share</b>	<b>\$ 0.35</b>	\$ (0.05)	<b>\$ 0.26</b>	\$ 0.13
<b>Diluted net income (loss) per share</b>	<b>\$ 0.35</b>	\$ (0.05)	<b>\$ 0.25</b>	\$ 0.13

See accompanying notes to the unaudited consolidated financial statements.

## Consolidated Statements of Retained Earnings

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

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 Months Sept. 30, 2005	8 Months Sept. 30, 2004
<b>Balance at beginning of period, as previously stated</b>	<b>\$72,090</b>	\$77,016	<b>\$77,365</b>	\$67,769
Net Income (loss)	19,014	(2,691)	13,739	6,556
<b>Balance at end of period</b>	<b>\$91,104</b>	\$74,325	<b>\$91,104</b>	\$74,325

See accompanying notes to the unaudited consolidated financial statements.

## Consolidated Statements of Cash Flow

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

	<b>3 Months Sept. 30, 2005</b>	3 Months Sept. 30, 2004	<b>9 Months Sept. 30, 2005</b>	8 Months Sept. 30, 2004
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	<b>\$19,014</b>	\$ (2,691)	<b>\$13,739</b>	\$ 6,556
Non-cash charges (credits) to earnings				
Depreciation	<b>1,537</b>	1,507	<b>4,259</b>	2,943
Stock based compensation expense	<b>1,292</b>	635	<b>3,222</b>	1,335
Shares issued on termination of contract	–	–	–	27,842
Gain on sale of investments	<b>(31,867)</b>	(448)	<b>(34,385)</b>	(41,566)
Write-down of investments to market value	<b>6,132</b>	–	<b>7,761</b>	1,495
Future income taxes	<b>6,194</b>	(110)	<b>5,980</b>	(11,174)
Other non-cash charges	<b>(170)</b>	717	<b>42</b>	1,055
Changes in non-cash working capital				
Decrease (increase) in accounts receivable	<b>(197)</b>	(792)	<b>(7,387)</b>	945
Increase in inventories	<b>(5,818)</b>	(3,783)	<b>(6,729)</b>	(4,464)
Decrease (increase) in other assets	<b>(1,650)</b>	(992)	<b>1,691</b>	(3,109)
Increase (decrease) in accounts payable	<b>63</b>	809	<b>3,396</b>	(3,503)
Increase in other liabilities	<b>216</b>	–	<b>216</b>	–
<b>Net cash (used in) operating activities</b>	<b>(5,254)</b>	(5,148)	<b>(8,195)</b>	(21,645)
<b>INVESTING ACTIVITIES</b>				
Increase in investments	<b>(8,886)</b>	(2,343)	<b>(18,576)</b>	(17,488)
Proceeds on sale of investments	<b>60,232</b>	2,645	<b>66,230</b>	66,825
Cash obtained on consolidation of subsidiary	–	–	–	4,730
Acquisition of mineral properties	–	–	<b>(16,819)</b>	–
Exploration and development costs capitalized	<b>(10,125)</b>	–	<b>(24,264)</b>	–
Acquisition of plant and equipment	<b>(2,787)</b>	(8,136)	<b>(11,159)</b>	(15,494)
<b>Net cash provided by (used in) investing activities</b>	<b>38,434</b>	(7,834)	<b>(4,588)</b>	38,573
<b>FINANCING ACTIVITIES</b>				
Issue of common shares	<b>505</b>	–	<b>505</b>	62,021
Purchase of shares for cancellation	–	(3,277)	–	(3,277)
Proceeds of debt financing	–	62	<b>11,706</b>	737
Debt retired	–	–	<b>(4,770)</b>	–
<b>Net cash provided by (used in) financing activities</b>	<b>505</b>	(3,215)	<b>7,441</b>	59,481
<b>Increase (decrease) in cash and equivalents</b>	<b>33,685</b>	(16,197)	<b>(5,342)</b>	76,409
<b>Cash and equivalents at beginning of period</b>	<b>30,801</b>	115,782	<b>69,828</b>	23,176
<b>Cash and equivalents at end of period</b>	<b>\$64,486</b>	\$99,585	<b>\$64,486</b>	\$99,585
<b>Supplemental Disclosures</b>				
Interest paid	<b>\$ –</b>	\$ 48	<b>\$ 443</b>	\$ 53
Taxes paid (received)	<b>\$ (5,421)</b>	\$ 1,191	<b>\$ (5,421)</b>	\$ 9,306

See accompanying notes to the unaudited consolidated financial statements.

# Notes to Unaudited Consolidated Financial Statements

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

## 1. Nature of Operations and Basis of Presentation

Dundee Precious Metals Inc. ("DPM" or the "Company") is a Canadian based international mining company engaged in the acquisition, exploration, development and mining of precious metals. The Company owns, a gold/copper mine ("Chelopech") which is being redeveloped and expanded; a feasibility stage gold project ("Krumovgrad"), both located in Bulgaria, and a series of exploration licenses in the Balkans and in Nunavut, Canada.

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

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

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

## 2. Inventories

(in thousands of Cdn. dollars)

As at	Sept. 30, 2005	Dec. 31, 2004
Gold/copper ore & concentrate	\$ 11,366	\$ 8,322
Spare parts & supplies	5,823	3,446
	\$ 17,189	\$ 11,768

### 3. Investments

(in thousands of Cdn. dollars)

	<b>3 Months Sept. 30, 2005</b>	3 Months Sept. 30, 2004	<b>9 Months Sept. 30, 2005</b>	8 Months Sept. 30, 2004
Investments at cost, beginning of period	<b>\$122,221</b>	\$91,034	<b>\$117,640</b>	\$150,949
Cost of investments purchased during the period	<b>8,886</b>	2,343	<b>18,576</b>	17,488
Cost of investments sold during the period				
Proceeds from sales	<b>(60,232)</b>	(2,645)	<b>(66,230)</b>	(66,825)
Net realized gain on sale of investments	<b>31,867</b>	448	<b>34,385</b>	41,566
Investments written-down	<b>(6,132)</b>	-	<b>(7,761)</b>	(1,495)
Investment in wholly-owned subsidiary which was consolidated effective April 1, 2004	-	-	-	(50,503)
Investments at cost, end of period	<b>\$ 96,610</b>	\$91,180	<b>\$ 96,610</b>	\$ 91,180

Included in investments at cost is \$5,431,000 representing an investment that is accounted for by the equity method. There was no equity income during the three and nine month period ended September 30, 2005.

### 4. Property, Plant and Equipment

(in thousands of Cdn. dollars)

<b>As at</b>	<b>Sept. 30, 2005</b>		<b>Dec. 31, 2004</b>	
	<b>Cost</b>	<b>Accumulated depreciation &amp; depletion</b>	<b>Net Book Value</b>	
<b>Mineral properties</b>			<b>Net Book Value</b>	
Chelopech	<b>\$ 20,567</b>	<b>\$ 2,646</b>	<b>\$ 17,921</b>	\$10,226
Krumovgrad	<b>43,914</b>	<b>68</b>	<b>43,846</b>	31,348
Back River	<b>18,983</b>	<b>-</b>	<b>18,983</b>	-
	<b>83,464</b>	<b>2,714</b>	<b>80,750</b>	41,574
<b>Buildings, plant and equipment</b>				
Chelopech	<b>47,192</b>	<b>8,485</b>	<b>38,707</b>	29,814
Krumovgrad	<b>2,857</b>	<b>235</b>	<b>2,622</b>	2,252
Corporate	<b>1,047</b>	<b>130</b>	<b>917</b>	66
	<b>51,096</b>	<b>8,850</b>	<b>42,246</b>	32,132
	<b>\$134,560</b>	<b>\$11,564</b>	<b>\$122,996</b>	\$73,706

During the nine month period ended September 30, 2005, the Company settled a contingent liability, as described in note 7(b), which arose on the acquisition of the Krumovgrad mineral property. In connection therewith, approximately \$7.8 million was capitalized to the Krumovgrad mineral property.

During the nine month period ended September 30, 2005, the Company purchased an option to earn a 60% interest in certain exploration properties (Back River) located in Nunavut. Approximately \$18.9 million has been capitalized to mineral properties reflecting the acquisition price of the option agreement and exploration activities from the date of acquisition.

## 5. Long-term Debt

(in thousands of Cdn. dollars)

As at	Sept. 30, 2005	Dec. 31, 2004
Long-term debt	\$11,627	\$4,808
Less: current portion	–	4,808
	<b>\$11,627</b>	<b>\$ –</b>

During the nine month period ended September 30, 2005 a wholly owned subsidiary, Chelopech Mining EAD, obtained a US\$10.0 (CAD \$11.6) 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.

During the nine month period ended September 30, 2005, the Company retired a US\$4.0 million note payable plus interest accrued as part of a settlement of a contingent liability as described in note 7(b). The note related to the acquisition of the Krumovgrad mineral property, bore interest at LIBOR plus 1% and was repayable in equal quarterly amounts of US\$0.8 million commencing on December 31, 2004.

## 6. Other Long-term Liabilities

(in thousands of Cdn. dollars)

As at	Sept. 30, 2005	Dec. 31, 2004
Long-term leases	\$ 737	\$ 1,057
Other	230	82
	<b>967</b>	<b>1,139</b>
Less: current portion	<b>737</b>	888
	<b>\$ 230</b>	<b>\$ 251</b>

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%.

## 7. Contingent Liabilities and Commitments

### a) Concession obligations

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

(in millions of US dollars)

2005	4.0
2006	4.3
2007	3.3
2008	2.9

As at September 30, 2005, the Company has spent US\$23 million in satisfaction of the above concession obligations.

In addition, a concession fee of 1.5% of the current value of the ore extracted from the Chelopech mine is payable to the Republic of Bulgaria. During the period from January 1, 2004 to December 31, 2010, this fee is reduced by 50% subject to a minimum payment of US\$0.6 million per annum. The balance of the concession fee is to be deposited into an escrow account which will be used to fund environmental risk management and remediation costs. The accumulated balance in the environmental escrow account of US\$697,000 was netted against the asset retirement obligation.

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

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

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

## c) Gold/copper concentrate sales

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

### Dry metric tonnes

2005	80,000
2006	90,000
2007	80,000
	<u>250,000</u>

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.

## 8. Income Taxes

(in thousands of Cdn. dollars)

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

	<b>3 Months Sept. 30, 2005</b>	3 Months Sept. 30, 2004	<b>9 Months Sept. 30, 2005</b>	8 Months Sept. 30, 2004
<b>Combined federal and provincial statutory income tax rates</b>	<b>36.12%</b>	<b>36.12%</b>	<b>36.12%</b>	<b>36.12%</b>
Income tax at statutory rates	<b>\$ 8,354</b>	\$(1,273)	<b>\$ 6,283</b>	\$1,165
Adjusted for the effect of:				
Non-taxable portion of capital gains	<b>(5,755)</b>	–	<b>(6,210)</b>	(5,821)
Investments written-down	<b>1,108</b>	–	<b>1,402</b>	540
Lower tax rate on foreign earnings	<b>111</b>	(101)	<b>2,334</b>	244
Other, net	<b>296</b>	541	<b>(151)</b>	541
<b>Provision for (recovery of) income taxes</b>	<b>\$ 4,114</b>	<b>\$ (833)</b>	<b>\$ 3,657</b>	<b>\$(3,331)</b>

## 9. Asset Retirement Obligations

Asset retirement obligations as at September 30, 2005 have been reflected on the balance sheet at \$8.5 million, net of accumulated cash in escrow of \$0.8 million, to reflect the net present value of the Chelopech mine site closure obligations. During the three and nine month period ending September 30, 2005, accretion expense of \$0.2 million and \$0.6 million was recognized in each period, respectively.

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

## 10. Shareholders' Equity

(in thousands of Cdn. dollars)

### a) Common shares

Authorized

Unlimited common shares without par value

Issued

	9 Months Ended Sept. 30, 2005		11 Months Ended Dec. 31, 2004	
	Number	Amount	Number	Amount
<b>Balance at beginning of period, including share purchase warrants, restated</b>	<b>53,639,675</b>	<b>\$189,971</b>	37,767,405	\$ 98,917
Shares issued on exercise of warrants	-	-	8,747,070	43,735
Value of unexercised and expired warrants transferred to contributed surplus	-	-	-	(88)
Shares issued in connection with the termination of the investment management contract	-	-	4,625,000	27,842
Shares issued in connection with the exercise of the option	<b>71,666</b>	<b>505</b>	2,500,000	18,286
Shares issued for services rendered	-	-	500,000	3,050
Shares purchased and cancelled	-	-	(499,800)	(1,771)
<b>Balance at end of period</b>	<b>53,711,341</b>	<b>\$190,476</b>	53,639,675	\$189,971

The weighted average number of shares used to calculate net income per share during the three and nine month period ended September 30, 2005 was 53,641,189 for basic net income per share and 54,354,903 and 54,172,639 for diluted net income per share, respectively. (September 30, 2004 – 53,852,688 and 50,957,759 for the three and eight month period then ended.)

### b) Contributed Surplus

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

	9 Months Ended Sept. 30, 2005	11 Months Ended Dec. 31, 2004
Balance at beginning of period	<b>\$1,072</b>	\$ 456
Cost of unexercised warrants at expiry	-	88
Stock based compensation	<b>2,365</b>	2,034
Cost of shares purchased and cancelled in excess of book value	-	(1,506)
<b>Balance at end of period</b>	<b>\$3,437</b>	\$1,072

### c) Stock Options

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

Total stock options outstanding for the following periods:

	9 Months Ended Sept. 30, 2005		11 Months Ended Dec. 31, 2004	
	Options (Number)	Weighted Avg. Exercise Price	Options (Number)	Weighted Avg. Exercise Price
Balance at beginning of period	4,460,000	\$ 7.00	-	\$ -
Granted	600,000	8.42	4,470,000	7.00
Exercised	(71,666)	7.00	-	-
Cancelled or expired	(126,667)	7.63	(10,000)	7.00
Balance at end of period	4,861,667	\$ 7.15	4,460,000	\$ 7.00

As at September 30, 2005 there are 1,398,316 exercisable options at an exercise price of \$7.00.

In the three and nine months ended September 30, 2005 there were 30,000 options and 600,000 options granted, respectively. The fair value of the options granted was estimated using a Black Scholes option pricing model with the following assumptions:

Risk free interest rate	3.49%
Expected life in years	5
Expected volatility	29.48%
Dividends per share	-

The estimated value of the options granted will be recognized over the vesting period. As at September 30, 2005 there is \$5.4 million remaining to be charged to income in future periods relating to stock option grants.

### 11. Long-term Compensation

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

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

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

During the three month period ended September 30, 2005, 6,600 DSU's were issued at \$9.10 each and \$60,060 was charged to earnings in relation to the issuance of the DSU's. The DSU issuance in prior periods was marked to market at September 30, 2005 and \$415,397 was charged to earnings as a result.

## 12. Segment Information

(in thousands of Cdn. dollars)

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

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

	<b>3 Months Sept. 30, 2005</b>	3 Months Sept. 30, 2004	<b>9 Months Sept. 30, 2005</b>	8 Months Sept. 30, 2004
Net revenue				
Mining operations	<b>\$ 1,498</b>	\$ (22)	<b>\$ 2,712</b>	\$ 1,268
Investments	<b>25,970</b>	519	<b>27,109</b>	40,279
	<b>\$27,468</b>	\$ 497	<b>\$29,821</b>	\$41,547
Net income (loss)				
Mining operations	<b>\$ (137)</b>	\$(2,000)	<b>\$ (295)</b>	\$ (1,937)
Investments	<b>25,970</b>	519	<b>27,109</b>	10,488 <sup>(1)</sup>
Net income (loss) of combined segments	<b>25,833</b>	(1,481)	<b>26,814</b>	8,551
Corporate	<b>(3,308)</b>	(1,810)	<b>(9,542)</b>	(4,164)
Foreign exchange gain (loss)	<b>603</b>	(233)	<b>124</b>	(1,162)
Income tax recovery (provision)	<b>(4,114)</b>	833	<b>(3,657)</b>	3,331
	<b>\$19,014</b>	\$(2,691)	<b>\$13,739</b>	\$ 6,556
Capital expenditures				
Mining	<b>\$12,912</b>	\$ 8,704	<b>\$52,242</b>	\$16,062

<b>As at</b>	<b>Sept. 30, 2005</b>	Dec. 31, 2004
Assets		
Cash	<b>\$ 64,486</b>	\$ 69,828
Mining operations	<b>153,309</b>	95,748
Investments	<b>112,910</b>	133,068
	<b>\$330,705</b>	\$298,644

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

### Geographic Information

<b>As at</b>	<b>Sept. 30, 2005</b>	Dec. 31, 2004
Assets		
Canada	<b>\$181,477</b>	\$197,271
Bulgaria	<b>149,228</b>	101,373
	<b>\$330,705</b>	\$298,644

## 13. Comparative Figures

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



# Corporate Information

## Directors

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

Vancouver, British Columbia

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

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

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

Toronto, Ontario

**Jonathan C. Goodman**

Toronto, Ontario

**Ned E. Goodman**

Innisfil, Ontario & Saint-Sauveur,  
Québec

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

Toronto, Ontario

**John W. Lydall** <sup>(2)(3)</sup>

Oakville, Ontario

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

Toronto, Ontario

**Peter B. Nixon** <sup>(1)(2)(3)</sup>

Keswick, Ontario

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

Montréal, Québec

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

Dublin, Ireland

(1) *Audit Committee*

(2) *Compensation Committee*

(3) *Corporate Governance Committee*

(4) *Health, Safety & Environment  
Committee*

## Officers

**William G. Wilson**

*Chairman*

**Jonathan Goodman**

*President and Chief Executive Officer*

**Laurence Marsland**

*Executive Vice President  
and Chief Operating Officer*

**Dr. Julian Barnes**

*Executive Vice President*

**Lori E. Beak**

*Vice President and Secretary*

**C. Bruce Burton**

*Vice President and Chief Financial Officer*

**Sean Hasson**

*Vice President, Exploration*

**Gabriela Sanchez**

*Vice President, Investor Relations*

**Jeffrey Pennock**

*Corporate Controller*

## Executive Head Office

**Dundee Precious Metals Inc.**

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## Stock Listing & Symbol

The Toronto Stock Exchange

**DPM** – Common Shares

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

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