

VISTA GOLD CORP
Form 10-Q
November 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

Commission File Number 1-9025

VISTA GOLD CORP.

(Exact name of registrant as specified in its charter)

Continued under the laws of the Yukon Territory, Canada
(State or other jurisdiction of incorporation or organization)

None
(IRS Employer Identification No.)

7961 Shaffer Parkway
Suite 5

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Littleton, Colorado
(Address of principal executive offices)

80127
(Zip Code)

(720) 981-1185

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to the filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: **32,966,943**

Common Shares, without par value, outstanding at October 24, 2007

VISTA GOLD CORP.

(An Exploration Stage Enterprise)

FORM 10-Q

For the Quarter Ended September 30, 2007

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In this Report, unless otherwise indicated, all dollar amounts are expressed in United States dollars.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VISTA GOLD CORP. (An Exploration Stage Enterprise)

CONSOLIDATED BALANCE SHEETS - UNAUDITED

(U.S. dollars in thousands)	September 30, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	\$ 18,602	\$ 48,691
Marketable securities - Note 4	8,989	791
Accounts receivable	413	645
Supplies inventory, prepaids and other	452	303
Current assets	28,456	50,430
Mineral properties - Note 5	26,698	21,553
Plant and equipment - Note 6	476	134
Prepaid Arrangement costs - Note 3		1,841
Other long-term receivables	116	166
Assets related to Arrangement - Note 3		18,607
	27,290	42,301
Total assets	\$ 55,746	\$ 92,731
Liabilities and Shareholders Equity:		
Accounts payable	\$ 5	\$ 158
Accrued liabilities and other	544	574
Current liabilities	549	732
Asset retirement obligation and closure costs	25	25
Liabilities related to Arrangement - Note 3		4,847
Total liabilities	574	5,604
Capital stock, no par value: - Note 7		
Preferred - unlimited shares authorized; no shares outstanding		
Common - unlimited shares authorized; shares outstanding: 2007 - 32,966,943 and 2006 - 31,674,623	219,696	215,618
Warrants - Note 8	531	932
Options - Note 9	3,189	2,239
Contributed surplus	253	253
Accumulated other comprehensive income - Note 10	5,781	
Deficit	(174,278)	(131,915)
Total shareholders equity	55,172	87,127
Total liabilities and shareholders equity	\$ 55,746	\$ 92,731

The accompanying notes are an integral part of these consolidated financial statements.

VISTA GOLD CORP. (An Exploration Stage Enterprise)

CONSOLIDATED STATEMENTS OF LOSS - UNAUDITED

(U.S. dollars in thousands, except share data)	Three Months Ended September		Nine Months Ended September		Cumulative during Exploration Stage
	2007	30, 2006	2007	30, 2006	
Income:					
Interest income	\$ 239	\$ 197	\$ 997	\$ 342	\$ 1,788
Other income	10		14	2	314
Gain on disposal of marketable securities	18	5	158	42	331
Gain on disposal of assets					53
Cost recoveries related to USF&G lawsuit					240
Total other income	\$ 267	\$ 202	\$ 1,169	\$ 386	\$ 2,726
Costs and expenses:					
Exploration, property evaluation and holding costs	\$ (204)	\$ (107)	\$ (682)	\$ (345)	\$ (2,142)
Corporate administration and investor relations	(1,688)	(834)	(3,323)	(1,743)	(12,630)
Costs of Arrangement	(528)		(2,880)		(2,880)
Depreciation and amortization	(27)	(24)	(80)	(32)	(168)
Gain/(loss) on currency translation	(20)	32	17	16	(17)
Total costs and expenses	(2,467)	(933)	(6,948)	(2,104)	(17,837)
Loss from continuing operations	\$ (2,200)	\$ (731)	\$ (5,779)	\$ (1,718)	\$ (15,111)
Loss from discontinued operations	\$	\$ (630)	\$ (425)	\$ (1,677)	\$ (10,292)
Net loss	\$ (2,200)	\$ (1,361)	\$ (6,204)	\$ (3,395)	\$ (25,403)
Other comprehensive income/(loss):					
Unrealized fair-value increase on available-for-sale securities	1,115		5,477		
Realized gain on available-for-sale securities	(13)		(228)		
Comprehensive loss	\$ (1,098)		\$ (955)		
Weighted average number of shares outstanding	32,391,811	27,656,092	32,123,697	24,846,654	
Basic and diluted loss per share from continuing operations	\$ (0.07)	\$ (0.03)	\$ (0.18)	\$ (0.07)	
Basic and diluted loss per share	\$ (0.07)	\$ (0.05)	\$ (0.19)	\$ (0.14)	

The accompanying notes are an integral part of these consolidated financial statements.

VISTA GOLD CORP. (An Exploration Stage Enterprise)

CONSOLIDATED STATEMENTS OF DEFICIT - UNAUDITED

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(U.S. dollars in thousands)	Three Months Ended September		Nine Months Ended September	
	2007	2006	2007	2006
Deficit, beginning of period	\$ (172,078)	\$ (129,778)	\$ (131,915)	\$ (127,744)
Net loss	(2,200)	(1,361)	(6,204)	(3,395)
Dividend-in-kind - Note 3			(36,159)	
Deficit, end of period	\$ (174,278)	\$ (131,139)	\$ (174,278)	\$ (131,139)

The accompanying notes are an integral part of these consolidated financial statements.

VISTA GOLD CORP. (An Exploration Stage Enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(U.S. dollars in thousands)	Three Months Ended September		Nine Months Ended September		Cumulative during Exploration Stage
	2007	30, 2006	2007	30, 2006	
Cash flows from operating activities:					
Loss for the period - continuing operations	\$ (2,200)	\$ (731)	\$ (5,779)	\$ (1,718)	\$ (15,111)
Loss for the period - discontinued operations		(630)	(425)	(1,677)	(10,292)
Net loss for the period	\$ (2,200)	\$ (1,361)	\$ (6,204)	\$ (3,395)	\$ (25,403)
Adjustments to reconcile loss for the period to cash provided by / (used in) operations:					
Depreciation and amortization	31	24	86	32	195
Stock-based compensation	900	589	1,213	650	3,492
Gain on disposal of assets					(53)
Cost recoveries related to USF&G lawsuit					(240)
Write-down of marketable securities					118
Gain on disposal of marketable securities	(17)	(8)	(219)	(62)	(593)
Loss on currency translation					44
Prepaid transaction costs - Note 3			1,841		
Other non-cash items					(64)
Change in operating assets and liabilities:					
Accounts receivable	125	(48)	(251)	(52)	(777)
Supplies inventory, prepaids and other	294	(518)	(148)	(640)	(230)
Accounts payable and accrued liabilities and other	(89)	213	(405)	129	(859)
Net cash used in operating activities from continuing operations	(956)	(1,109)	(4,087)	(3,338)	(24,370)
Net cash provided by operating activities from discontinued operations		(4)	165	79	2,591
Net cash used in operating activities	(956)	(1,113)	(3,922)	(3,259)	(21,779)
Cash flows from investing activities:					
Acquisition of marketable securities	(114)	(34)	(229)	(242)	(874)
Proceeds from sale of marketable securities	40	45	258	156	984
Additions to mineral properties, net of cost recoveries - Note 5	(991)	(632)	(4,610)	(1,119)	(10,059)
Acquisition of mineral property				(1,269)	(2,880)
Additions to plant and equipment - Note 6	(103)	(41)	(428)	(113)	(652)
Proceeds on disposal of plant and equipment					52
Cash transferred to Allied Nevada Gold Corp., net of receivable	(133)		(24,517)		(24,517)
Net cash used in investing activities from continuing operations	(1,301)	(662)	(29,526)	(2,587)	(37,946)
Net cash used in investing activities from discontinued operations		(298)	(62)	(652)	(14,580)
Net cash used in investing activities	(1,301)	(960)	(29,588)	(3,239)	(52,526)
Cash flows from financing activities:					
Net proceeds from equity financings - Note					54,409

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Proceeds from exercise of warrants - Note 7	1,394	763	2,889	25,574	35,359
Proceeds from exercise of stock options - Note 7	508	319	525	798	2,465
Net cash provided by financing activities from continuing operations	1,902	1,082	3,414	26,372	92,233
Net cash provided by financing activities from discontinued operations					
Net cash provided by financing activities	1,902	1,082	3,414	26,372	92,233
Net increase/(decrease) in cash and cash equivalents	(355)	(991)	(30,096)	19,874	17,928
Cash and cash equivalents, beginning of period - continuing operations	18,957	22,888	48,691	2,017	38
Cash and cash equivalents, beginning of period - discontinued operations		4	7	10	636
Cash and cash equivalents, end of period	\$ 18,602	\$ 21,901	\$ 18,602	\$ 21,901	\$ 18,602

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(U.S. dollars unless specified otherwise)

1. General

The consolidated interim financial statements of Vista Gold Corp. (an Exploration Stage Enterprise) (the Corporation), as of September 30, 2007, and for the three-month and nine-month periods ended September 30, 2007, have been prepared by the Corporation without audit and do not include all of the disclosures required by generally accepted accounting principles in Canada for annual financial statements. As described in Note 11, generally accepted accounting principles in Canada differ in certain material respects from generally accepted accounting principles in the United States. In the opinion of management, all of the adjustments necessary to fairly present the interim financial information set forth herein have been made. These adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future years. These interim financial statements should be read in conjunction with the financial statements and related footnotes included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

These interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements, with the exception that on January 1, 2007, the Corporation adopted CICA Handbook Sections 1530, Comprehensive Income, 3855, Financial Instruments Recognition and Measurement, and 3861, Financial Instruments Disclosure and Presentation.

The adoption of these new sections had no impact on the Corporation's financial statements on or before December 31, 2006. The sections require adjustments to the carrying value of available-for-sale securities to be recorded within accumulated other comprehensive income on transition. Accordingly, upon adoption of these sections, the Corporation made a one-time adjustment to the opening balance of accumulated other comprehensive income in the amount of \$531,743.

All available-for-sale securities are measured at fair value. Gains and losses associated with these available-for-sale securities will be separately recorded as unrealized within other comprehensive income until such time the security is disposed of or becomes impaired, at which time any gains or losses will then be realized and reclassified to the statement of loss.

Upon adoption of these new standards, all regular-way purchases of financial assets are accounted for at the trade date. Transaction costs on financial assets are treated as part of the investment cost.

As a result of the completion of the Arrangement Agreement (as defined in Note 3), the Corporation transferred its Nevada-based mining properties to Allied Nevada Gold Corp. (Note 3). The Corporation's financial statements reflect these Nevada-based mining properties as discontinued operations with the assets and liabilities associated with these properties classified under the captions Assets related to Arrangement and Liabilities related to Arrangement on the Consolidated Balance Sheets. The results of operations are treated as losses from discontinued operations and separately stated on the Consolidated Statements of Loss after losses from continuing operations and the related operating, financing and investing cash flows are shown separately on the consolidated statement of cash flows.

2. *Nature of operations*

The Corporation evaluates, acquires and explores gold exploration and potential development projects. As such, the Corporation is considered an Exploration Stage Enterprise. The Corporation's approach to acquisitions of gold projects has generally been to seek projects within political jurisdictions with well established mining, land ownership and tax laws, which have adequate drilling and geological data to support the completion of a third-party review of the geological data and to complete an estimate of the gold mineralization. In addition, the Corporation looks for opportunities to improve the value of its gold projects through exploration drilling, and/or reengineering the operating assumptions underlying previous engineering work.

Beginning in 2007, the Board of Directors and management have decided to take on a new direction regarding the Corporation's more advanced projects. The more advanced projects will move forward through advanced and pre-feasibility studies, so production decisions can be made on those projects.

Although the Corporation has reviewed and is satisfied with the title for all mineral properties in which it has a material interest, there is no guarantee that title to such concessions will not be challenged or impugned.

3. *Completion of the Arrangement involving Vista Gold Corp., Allied Nevada Gold Corp. and the Pescios*

The previously announced Arrangement involving the Corporation, Allied Nevada Gold Corp. (Allied Nevada), Carl Pescio and Janet Pescio (the Pescios) pursuant to the Arrangement and Merger Agreement between the parties dated as of September 22, 2006 as amended (the Arrangement Agreement), closed on May 10, 2007. The transaction resulted in the acquisition by Allied Nevada of the Corporation's Nevada-based properties and the Nevada mineral assets of Carl and Janet Pescio. Of the 38,933,055 shares of Allied Nevada common stock (the Allied Nevada Shares) issued as part of the transaction, 12,000,000 were issued to Carl and Janet Pescio as partial consideration for the acquisition of their Nevada mineral assets and 26,933,055 were issued to the Corporation in accordance with the Arrangement. As part of the transaction, the Corporation's shareholders exchanged each of their Vista Gold common shares and received: (i) one new Vista Gold common share and (ii) a pro rata portion of (A) the number of Allied Nevada Shares received by the Corporation as part of the Arrangement less (B) the number of Allied Nevada Shares retained by Vista Gold to facilitate payment of any taxes payable in respect of the Arrangement. Accordingly, of the 26,933,055 Allied Nevada Shares issued to the Corporation, 25,403,207 shares were distributed to shareholders of the Corporation by way of an in-kind dividend and the Corporation retained 1,529,848 shares to facilitate the payment of any taxes payable by the Corporation in respect of the Arrangement. The new common shares of the Corporation and the Allied Nevada Shares began trading on May 10, 2007, on the Toronto Stock Exchange and the American Stock Exchange. Also, under the Arrangement Agreement, the Corporation transferred \$25.0 million less the outstanding receivable of \$0.5 million to Allied Nevada.

The 1,529,848 Allied Nevada Shares that the Corporation retained have a book value of \$2.17 million, which is the difference between the net assets transferred to Allied Nevada and the dividend-in-kind distributed to the Corporation's shareholders. These available-for-sale securities have been fair-valued as of September 30, 2007 and have a fair market value of \$7.6 million based on the Allied Nevada share price at that date. The fair market value of these shares is included in marketable securities on the Corporation's Consolidated Balance Sheets and the unrealized gain recorded within other comprehensive income.

The aggregate carrying amount of the net assets transferred from the Corporation to Allied Nevada is as follows:

(U.S. dollars in thousands)	May 10, 2007	December 31, 2006
Assets:		
Cash and cash equivalents	\$ 25,001	\$ 7
Accounts receivable	7	102
Supplies, inventory, prepaids and other	102	104
Current assets	\$ 25,110	\$ 213
Restricted cash	5,385	5,320
Mineral properties - Note 5	9,867	10,196
Plant and equipment - Note 6	929	996
Reclamation premium costs and other assets	1,839	1,882
	18,020	18,394
Total assets related to Arrangement	\$ 43,130	\$ 18,607
Liabilities:		
Accounts payable	\$	\$ 9
Accrued liabilities and other	120	152
Current liabilities	\$ 120	161
Capital lease obligation	20	23
Asset retirement obligation and closure costs	4,663	4,663
Total liabilities related to Arrangement	\$ 4,803	\$ 4,847
Net assets related to Arrangement	\$ 38,327	\$ 13,760

The Corporation has allocated corporate overhead expenses to Allied Nevada based on the ratio of mineral properties transferred to Allied Nevada. These allocations, along with the actual expenses of the Corporation's subsidiaries that held the assets transferred are listed on the statements of loss as losses from discontinued operations.

Also, upon completion of the transaction, \$2.4 million in costs associated with the Arrangement previously held as prepaid items were expensed. These costs included legal fees, tax and audit fees, regulatory fees, consultant fees and other items related to the completion of the Arrangement that were not reimbursable by Allied Nevada.

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4. Marketable Securities

(U.S. dollars in thousands)	At September 30, 2007			At December 31, 2006		
	Cost	Unrealized gain/(loss)	Fair value	Cost	Unrealized gain/(loss)	Fair value
Allied Nevada Gold Corp.	\$ 2,178	\$ 5,471	\$ 7,649	\$	\$	\$
Esperanza Silver Corp.	10	199	209	16	404	420
Luzon Minerals LTD	462	(180)	282	462	(102)	360
Nevgold Resources Corp.	83	30	113	33	14	47
Other	475	261	736	280	216	496
	\$ 3,208	\$ 5,781	\$ 8,989	\$ 791	\$ 532	\$ 1,323

Prior to January 1, 2007, the Corporation did not recognize unrealized gains or losses on available-for-sale securities within the financial statements. On January 1, 2007, the Corporation adopted CICA Handbook Sections 1530, Comprehensive Income and 3855, Financial Instruments Recognition and Measurement which resulted in a one-time adjustment to the opening balance of accumulated other comprehensive income of \$531,743.

5. Mineral properties

(U.S. dollars in thousands)	2006				2007				
	December 31 net balance	Acquisition costs	Option payments	Exploration & land costs	Cost recovery	Retained by Vista Gold Corp.	Transferred to Allied Nevada Gold Corp.	Year to date activity	September 30, Ending Balance
Maverick Springs, United States	\$ 1,471	\$	\$	\$	\$	\$	\$ (1,471)	\$ (1,471)	\$
Mountain View, United States	854			1			(855)	(854)	
Wildcat, United States	1,017						(1,017)	(1,017)	
Hasbrouck and Three Hills, United States	386						(386)	(386)	
F.W. Lewis, Inc. Properties, United States	2,968			3	(24)	(309)	(2,638)	(2,968)	
Hycroft Royalty, United States	3,500						(3,500)	(3,500)	
Mineral properties transferred to Allied Nevada Gold Corp.	\$ 10,196			4	(24)	(309)	(9,867)	(10,196)	
Long Valley, United States	641		250	32				282	923
Yellow Pine, United States	593			41				41	634
Paredones Amarillos, Mexico	3,218			282				282	3,500
Guadalupe de los Reyes, Mexico	1,249		100	21				121	1,370
Amayapampa, Bolivia	10,326								10,326
Awak Mas, Indonesia	2,590			385				385	2,975
Mt. Todd, Australia	2,875			3,705				3,705	6,580
Other	61			20		309		329	390
Mineral properties retained by the Corporation	\$ 21,553	\$	\$ 350	\$ 4,486	\$	\$ 309	\$	\$ 5,145	\$ 26,698

Prior to the completion of the Arrangement, the F.W. Lewis, Inc. properties included three properties in Colorado. These three properties were retained by the Corporation and are now owned by Vista Gold U.S. Inc. The carrying value of these three properties was \$309,000.

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The recoverability of the carrying values of the Corporation's mineral properties is dependent upon the successful start-up and commercial production from, or sale, or lease, of these properties and upon economic reserves being discovered or developed on the properties. Development and/or start-up of any of these projects will depend, among other things, on management's ability to raise additional capital for these purposes. Although the Corporation has been successful in raising such capital in the past, there can be no assurance that it will be able to do so in the future.

Measurement Uncertainty

The carrying value of the Amayapampa gold project was \$10.3 million as at September 30, 2007. The valuation of this asset is highly dependent on the Corporation's ability to sell this project and on assumptions regarding the price of gold in the future. As at September 30, 2007, the impairment analysis was performed on a stand-alone project basis and incorporated the following key assumptions:

Gold price of \$515 per ounce

Expected reserves of 440,000 ounces to be mined from the property commencing in 2009 based on a feasibility study carried out in February, 2000.

Using these assumptions, the Amayapampa project was not considered to be impaired based on the projected undiscounted cash flows.

The Corporation believes that the fair value of its other mineral properties exceeds the carrying value; however, a write-down in the carrying values of the Corporation's properties may be required in the future as a result of events and circumstances resulting in an evaluation of gold resources and the application of an impairment test which is based on estimates of gold resources and gold prices.

6. Plant and equipment

(U.S. dollars in thousands)	September 30, 2007			December 31, 2006		
	Cost	Accumulated Depreciation and Write-downs	Net	Cost	Accumulated Depreciation and Write-downs	Net
Hycroft mine, United States	\$ 11,949	\$ 11,036	\$ 913	\$ 11,949	\$ 10,969	\$ 980
F.W. Lewis, Inc. Properties, United States	31	15	16	31	15	16
PP&E transferred to Allied Nevada Gold Corp.	11,980	11,051	929	11,980	10,984	996
Awak Mas, Indonesia	101	43	58	96	24	72
Mt. Todd, Australia	397	54	343	30	2	28
Paredones Amarillos, Mexico	33		33			
Corporate, United States	452	410	42	429	395	34
PP&E retained by the Corporation	\$ 983	\$ 507	\$ 476	\$ 555	\$ 421	\$ 134

7. Capital stock

Common Shares issued and outstanding

	Number of shares issued	Capital stock (\$ 000 s)
As of December 31, 2006	31,674,623	\$ 215,618
Warrants exercised from February - March 2002 private placement - Note 8	97,465	146
Warrants exercised from September 2005 private placement, cash - Note 8	216,881	889
Warrants exercised from September 2005 private placement, fair value - Note 8		401
Warrants exercised from February 2006 private placement - Note 8	35,000	210
Exercise of stock options, cash - Note 9	4,000	17
Exercise of stock options, fair value - Note 9		11
Issued during the three months ended March 31, 2007	353,346	1,674
As of March 31, 2007	32,027,969	\$ 217,292
Warrants exercised from September 2005 private placement - Note 8	116,144	250
Issued during the three months ended June 30, 2007	116,144	250
As of June 30, 2007	32,144,113	\$ 217,542
Warrants exercised from September 2005 private placement - Note 8	647,360	1,394
Exercise of stock options, cash - Note 9	175,470	508
Exercise of stock options, fair value - Note 9		252
Issued during the three months ended September 30, 2007	822,830	2,154
As of September 30, 2007	32,966,943	\$ 219,696

8. Warrants

Warrants granted, exercised and outstanding during the period are summarized in the following table:

	Warrants granted(1)(2)	Valuation (\$ 000 s)	Warrants exercised	Warrants expired	Warrants outstanding	Weighted average exercise prices (U.S. \$)	Expiry date	Weighted average remaining life (yrs)
As of December 31, 2006	12,208,917	932	(10,323,320)	(333,163)	1,552,434	\$ 4.82		
Private placement February - March 2002			(97,465)		(97,465)	1.50	Feb - Mar-07	

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Private placement September 2005		(401)	(216,881)		(216,881)		4.10	Sep-07	0.5
Private placement February 2006			(35,000)		(35,000)		6.00	Feb-08	0.8
As of March 31, 2007	12,208,917	531	(10,672,666)	(333,163)	1,203,088	\$	5.74		
Private placement September 2005			(61,000)		(61,000)		4.10	Sep-07	0.2
As of June 30, 2007	12,208,917	531	(10,733,666)	(333,163)	1,142,088	\$	5.82		
Private placement September 2005			(340,000)	(4,000)	(344,000)	\$	4.10	Sep-07	
As of September 30, 2007	12,208,917	531	(11,073,666)	(337,163)	798,088	\$	6.57		

(1) Each warrant entitles the holder to purchase common shares as adjusted in accordance with the warrant terms pursuant to the Plan of Arrangement.

(2) The value of all warrants issued in conjunction with private placements is allocated to common stock upon exercise.

Immediately prior to the completion of the Arrangement on May 10, 2007 (see Note 3), there were 1,203,088 outstanding warrants entitling holders to purchase one common share per warrant. Of the aforementioned

outstanding warrants, 405,000 were issued as part of the September 2005 private placement, 614,684 were issued as part of the February 2006 private placement and an aggregate 183,405 were issued as payment to two agents in connection with the Corporation's November 2006 public equity financing. Upon completion of the Arrangement, the number of shares to be issued in connection with the outstanding warrants was adjusted so that each warrant will entitle the holder thereof to receive the following number of shares per warrant: 1.904 common shares per warrant for the September 2005 private placement warrants, 1.894 common shares per warrant for the February 2006 private placement warrants, 1.925 common shares per warrant for 119,213 of the broker warrants and 1.928 common shares per warrant for the remaining 64,192 broker warrants.

On September 23, 2007, the warrants issued in conjunction with the September 2005 private placement expired. There were 4,000 warrants that were not exercised prior to September 23, 2007 that expired; all other warrants were exercised.

9. *Options to purchase Common Shares*

Under the Corporation's Stock Option Plan (the Plan), the Corporation may grant options to directors, officers, employees and consultants of the Corporation. The maximum number of common shares of the Corporation that may be reserved for issuance under the Plan is a variable number equal to 10% of the issued and outstanding common shares on a non-diluted basis. Under the Plan, the exercise price of each option shall not be less than the market price of the Corporation's stock on the date preceding the date of grant, and an option's maximum term is 10 years or such other shorter term as stipulated in a stock option agreement between the Corporation and the optionee. Options under the Plan are granted from time to time at the discretion of the Board of Directors, with vesting periods and other terms as determined by the Board.

The fair value of stock options granted to employees and directors was estimated at the grant date using a lattice option pricing model, using the following weighted average assumptions:

	September 2007	September 2006
Expected volatility	60%	60%
Risk-free interest rate	4.60%	4.55 - 4.91%
Expected lives (years)	5	5
Dividend yield	N/A	N/A

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Expected price volatility is based on the historical volatility of the Corporation's stock. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Corporation's stock options. The expected term of the options granted is derived from the output of the option pricing model and represents the period of time that the options granted are expected to be outstanding. The risk-free rate of interest for the periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the date of grant.

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A summary of other option activity under the Plan as of September 30, 2007, and changes during the quarter then ended is set forth in the following table:

	Number of Shares	Weighted- Average Exercise Price (\$ USD)	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (\$ 000)
Outstanding - December 31, 2006	944,000	\$ 5.13	2.57	\$ 3,500
Exercised	(4,000)	4.19		
Expired	(2,857)	3.04		
Outstanding - March 31, 2007	937,143	\$ 5.14	2.35	\$ 2,649
Exercisable - March 31, 2007	817,143	\$ 4.50	2.05	\$ 2,649
Expired	(10,000)	4.40		
Modification	(47,777)			
Outstanding - June 30, 2007	879,366	\$ 3.89	2.11	\$ 877
Exercisable - June 30, 2007	765,550	\$ 3.46	1.80	\$ 877
Exercised	(175,470)	2.90		
Granted	625,000	4.58		
Outstanding - September 30, 2007	1,328,896	\$ 4.35	3.51	\$ 788
Exercisable - September 30, 2007	997,428	\$ 4.22	2.63	\$ 782

A summary of the fair-value changes included in options within Shareholders' Equity as of September 30, 2007, and the period then ended is set forth in the following table:

	Options (\$ 000 s)
As of December 31, 2006	\$ 2,239
Exercised	(11)
Expensed	134
As of March 31, 2007	\$ 2,362
Expensed	\$ 179
As of June 30, 2007	\$ 2,541