

CAPITAL GOLD CORP
Form 10-Q
June 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 0-13078

CAPITAL GOLD CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-3180530
(I.R.S. Employer
Identification No.)

76 Beaver Street, 14th floor, New York, NY 10005

(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 344-2785

(Former name, former address and former fiscal year, if changed since last report)

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 such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(do not check if smaller reporting company)

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 equity as of the latest practicable date.

| Class | Outstanding at June 4, 2010 |
|---|-----------------------------|
| Common Stock, par value \$.0001 per share | 48,559,521 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three and nine months ended April 30, 2010.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended July 31, 2009.

The results reflected for the three and nine months ended April 30, 2010 are not necessarily indicative of the results for the entire fiscal year ending July 31, 2010.

As discussed more fully in Note 1 to the accompanying condensed consolidated financial statements, the financial information as of the fiscal year ended July 31, 2009 and for the three and nine months ended April 30, 2009 has been recast so that the basis of presentation is consistent with that of the financial information as of April 30, 2010 and for the three and nine months ended April 30, 2010. This recast reflects a 1-for-4 reverse stock split of the Company's common stock that became effective on January 25, 2010.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(in thousands, except for share and per share amounts)

| | April 30, 2010 (unaudited) | July 31, 2009 |
|--|----------------------------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 9,203 | \$ 6,448 |
| Accounts Receivable | - | 2,027 |
| Ore on Leach Pads (Note 6) | 30,767 | 20,024 |
| Material and Supply Inventories (Note 5) | 2,109 | 1,381 |
| Marketable Securities (Note 4) | 75 | 35 |
| Prepaid Expenses | 444 | 277 |
| Other Current Assets (Note 7) | 1,018 | 1,101 |
| Total Current Assets | 43,616 | 31,293 |
| Mining Concessions (Note 10) | 52 | 51 |
| Property & Equipment – net (Note 8) | 25,134 | 22,417 |
| Intangible Assets – net (Note 9) | 672 | 318 |
| Other Assets: | | |
| Deferred Financing Costs | 1,641 | 2,232 |
| Other Long-term Assets | 332 | 98 |
| Total Other Assets | 1,973 | 2,330 |
| Total Assets | \$ 71,447 | \$ 56,409 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 1,103 | \$ 988 |
| Accrued Expenses (Note 17) | 7,114 | 1,633 |
| Derivative Contracts (Note 16) | 72 | 193 |
| Deferred Tax Liability (Note 18) | 4,571 | 4,233 |
| Current Portion of Long-term Debt (Note 15) | 3,600 | 3,600 |
| Total Current Liabilities | 16,460 | 10,647 |
| Reclamation and Remediation Liabilities (Note 11) | 2,016 | 1,594 |
| Other liabilities | 276 | 78 |
| Long-term Debt (Note 15) | 1,700 | 4,400 |
| Total Long-term Liabilities | 3,992 | 6,072 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Common Stock, Par Value \$.0001 Per Share; Authorized 75,000,000 shares; Issued and Outstanding 48,475,507 and 48,463,406 shares, respectively | 5 | 5 |
| Additional Paid-In Capital | 64,813 | 64,071 |
| Accumulated Deficit | (13,426) | (22,089) |
| Deferred Compensation | (97) | (319) |

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| | | |
|--|-----------|-----------|
| Accumulated Other Comprehensive Income (Note 12) | (300) | (1,978) |
| Total Stockholders' Equity | 50,995 | 39,690 |
| Total Liabilities and Stockholders' Equity | \$ 71,447 | \$ 56,409 |

The accompanying notes are an integral part of the financial statements.

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CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

(in thousands, except for share and per share amounts)

| | For The Three Months Ended April 30, | |
|--|---|------------|
| | 2010 | 2009 |
| Revenues | | |
| Sales – Gold, net | \$ 17,525 | \$ 12,395 |
| Costs and Expenses: | | |
| Costs Applicable to Sales | 6,601 | 3,698 |
| Depreciation and Amortization | 838 | 563 |
| General and Administrative | 3,753 | 1,361 |
| Exploration | 320 | 329 |
| Total Costs and Expenses | 11,512 | 5,951 |
| Income from Operations | 6,013 | 6,444 |
| Other Income (Expense): | | |
| Interest Income | 4 | 7 |
| Interest Expense | (326) | (351) |
| Other Expense | 34 | (40) |
| Loss on change in fair value of derivative | - | (1,391) |
| Total Other Expense | (288) | (1,775) |
| Income before Income Taxes | 5,725 | 4,669 |
| Income Tax Expense | (2,946) | (2,115) |
| Net Income | \$ 2,779 | \$ 2,554 |
| Income Per Common Share | | |
| Basic | \$ 0.06 | \$ 0.05 |
| Diluted | \$ 0.06 | \$ 0.05 |
| Basic Weighted Average Common Shares Outstanding | 48,486,705 | 48,340,687 |
| Diluted Weighted Average Common Shares Outstanding | 50,264,669 | 50,206,726 |

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

(in thousands, except for share and per share amounts)

| | For The Nine Months Ended April 30, | |
|--|--|------------|
| | 2010 | 2009 |
| Revenues | | |
| Sales – Gold, net | \$ 42,480 | \$ 32,939 |
| Costs and Expenses: | | |
| Costs Applicable to Sales | 15,336 | 10,395 |
| Depreciation and Amortization | 2,063 | 1,535 |
| General and Administrative | 7,413 | 3,800 |
| Exploration | 1,000 | 1,224 |
| Total Costs and Expenses | 25,812 | 16,954 |
| Income from Operations | 16,668 | 15,985 |
| Other Income (Expense): | | |
| Interest Income | 11 | 32 |
| Interest Expense | (1,046) | (1,264) |
| Other Expense | (27) | (273) |
| Loss on change in fair value of derivative | - | (1,969) |
| Total Other Expense | (1,062) | (3,474) |
| Income before Income Taxes | 15,606 | 12,511 |
| Income Tax Expense | (6,943) | (4,824) |
| Net Income | \$ 8,663 | \$ 7,687 |
| Income Per Common Share | | |
| Basic | \$ 0.18 | \$ 0.16 |
| Diluted | \$ 0.17 | \$ 0.15 |
| Basic Weighted Average Common Shares Outstanding | 48,487,931 | 48,282,926 |
| Diluted Weighted Average Common Shares Outstanding | 49,987,145 | 49,801,877 |

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except for share and per share amounts)

| | Common Stock Shares | Common Stock Amount | Additional paid-in- Capital | Accumulated Deficit | Accumulated Other Comprehensive Income/(Loss) | Deferred Compensation | Total Stockholders' Equity |
|---|------------------------|------------------------|-----------------------------------|------------------------|--|--------------------------|----------------------------------|
| Balance at July 31, 2009 | 48,463,406 | \$ 5 | \$ 64,071 | \$ (22,089) | \$ (1,978) | \$ (319) | \$ 39,690 |
| Equity based compensation | (63,333) | - | 689 | - | - | 222 | 911 |
| Common stock issued upon the exercising of options and warrants | 75,434 | - | 53 | - | - | - | 53 |
| Net income for the nine months ended April 30, 2010 | - | - | - | 8,663 | - | - | 8,663 |
| Change in fair value on interest rate swaps | - | - | - | - | 122 | - | 122 |
| Unrealized gain on marketable securities | - | - | - | - | 40 | - | 40 |
| Equity adjustment from foreign currency translation | - | - | - | - | 1,516 | - | 1,516 |
| Total comprehensive income | - | - | - | - | - | - | 10,341 |
| Balance at April 30, 2010 | 48,475,507 | \$ 5 | \$ 64,813 | \$ (13,426) | \$ (300) | \$ (97) | \$ 50,995 |

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

(in thousands, except for share and per share amounts)

| | For The Nine Months Ended April 30, | |
|--|---|----------------|
| | 2010 | 2009 |
| Cash Flow From Operating Activities: | | |
| Net Income | \$ 8,663 | \$ 7,687 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and Amortization | 2,063 | 1,535 |
| Amortization of Deferred Financing Costs | 741 | 734 |
| Accretion of Reclamation and Remediation | 111 | 113 |
| Loss on change in fair value of derivative | - | 1,969 |
| Equity Based Compensation | 911 | 798 |
| Changes in Operating Assets and Liabilities: | | |
| Decrease (increase) in Accounts Receivable | 2,027 | (527) |
| Increase in Prepaid Expenses | (167) | (93) |
| Increase in Inventory | (10,893) | (3,298) |
| Decrease (increase) in Other Current Assets | 82 | (34) |
| Decrease (increase) in Other Long-term Assets | (234) | (260) |
| Increase in Accounts Payable | 115 | 180 |
| Decrease in Derivative Liability | - | (2,684) |
| Increase (decrease) in Other Liability | 198 | (17) |
| Increase (decrease) in Reclamation and Remediation | 308 | (511) |
| Increase in Deferred Tax Liability | 338 | 523 |
| Increase in Accrued Expenses | 5,481 | 1,196 |
| Net Cash Provided By Operating Activities | 9,744 | 7,311 |
| Cash Flow From Investing Activities: | | |
| Purchase of Mining, Milling and Other Property and Equipment | (5,319) | (4,590) |
| Purchase of Intangibles | (393) | (180) |
| Net Cash Used in Investing Activities | (5,712) | (4,770) |

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED
(UNAUDITED)

(in thousands, except for share and per share amounts)

| | For The Nine Months Ended April 30, | |
|--|---|----------|
| | 2010 | 2009 |
| Cash Flow From Financing Activities: | | |
| Repayments from Affiliate, net | 4 | 5 |
| Payment of Deferred Finance Costs | (150) | - |
| Repayments on Note Payable | (2,700) | (3,375) |
| Proceeds From Issuance of Common Stock | 53 | 144 |
| Net Cash Used in Financing Activities | (2,793) | (3,226) |
| Effect of Exchange Rate Changes | 1,516 | (3,120) |
| (Decrease) Increase In Cash and Cash Equivalents | 2,755 | (3,805) |
| Cash and Cash Equivalents - Beginning | 6,448 | 10,992 |
| Cash and Cash Equivalents – Ending | \$ 9,203 | \$ 7,187 |
| Supplemental Cash Flow Information: | | |
| Cash Paid For Interest | \$ 328 | \$ 465 |
| Cash Paid For Income Taxes | \$ 4,521 | \$ 2,572 |
| Non-Cash Financing Activities: | | |
| Change in Fair Value of Derivative Instrument | \$ 122 | \$ 12 |

The accompanying notes are an integral part of the financial statements.

CAPITAL GOLD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(in thousands, except for per share and ounce amounts)

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold" or, the "Company") owns rights to property located in the State of Sonora, Mexico. The Company is engaged in the production of gold and silver from its properties in Mexico as well as exploration for additional mineral properties. All of the Company's mining activities are in Mexico.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated financial position and results of operations and cash flows for the periods presented. They include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries, Leadville Mining and Milling Holding Corporation, Minera Santa Rita, S.A de R.L. de C.V. ("MSR") and Oro de Altar S. de R. L. de C.V. ("Oro") as well as the accounts within Caborca Industrial S.A. de C.V. ("Caborca Industrial"), a Mexican corporation that is 100% owned by two of the Company's officers and directors for mining support services. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. This entity is considered a variable interest entity in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance for consolidation accounting.

All significant intercompany accounts and transactions are eliminated in consolidation. Certain items in these financial statements have been reclassified to conform to the current period presentation.

The financial information in the accompanying condensed consolidated financial statements as of the fiscal year ended July 31, 2009 and for the three and nine months ended April 30, 2009 has been recast so that the basis of presentation is consistent with that of the financial information as of April 30, 2010 and for the three and nine months ended April 30, 2010. This recast reflects a 1-for-4 reverse stock split of the Company's common stock that became effective on January 25, 2010.

The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended July 31, 2009 should be read in conjunction with these condensed consolidated financial statements. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

NOTE 2 – Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (“FASB”) established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative GAAP to be applied by nongovernmental entities. The ASC is a new structure which took existing accounting pronouncements and organized them by accounting topic. Relevant authoritative literature issued by the Securities and Exchange Commission (“SEC”) and select SEC staff interpretations and administrative literature was also included in the ASC. All other accounting guidance not included in the ASC is non-authoritative. The ASC was effective for the Company’s interim quarterly period beginning August 1, 2009. The adoption of the ASC did not have an impact on the Company’s consolidated financial position, results of operations or cash flows.

Share-Based Payment Transactions

Effective August 1, 2009, the Company adopted a provision in accordance with ASC guidance for earnings per share (originally issued as FASB Staff Position No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities”). This guidance establishes that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and shall be included in the computation of earnings per share under the two-class method. The adoption of the ASC did not have a material effect on the Company’s Condensed Consolidated Financial Statements.

Fair Value Measurements

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance is effective for the Company’s interim reporting period beginning February 1, 2010, with the exception of the Level 3 disaggregation, which is effective for the fiscal years beginning August 1, 2011. The Company is evaluating the potential impact of adopting this guidance on the Company’s consolidated financial position, results of operations and cash flows.

Variable Interest Entities

In June 2009, the ASC guidance for consolidation accounting was updated to require an entity to perform a qualitative analysis to determine whether the enterprise’s variable interest gives it a controlling financial interest in a variable interest entity (“VIE”). This analysis identifies a primary beneficiary of a VIE as the entity that has both of the following characteristics: i) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and ii) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE. The updated guidance also requires ongoing reassessments of the primary beneficiary of a VIE. The updated guidance is effective for the Company’s fiscal year beginning August 1, 2010. The Company currently accounts for Caborca Industrial (“CI”) as a VIE and is evaluating the potential impact of adopting this statement on the Company’s consolidated financial position, results of operations and cash flows.

Equity-linked Financial Instruments

In June 2008, the ASC guidance for derivatives and hedging when accounting for contracts in an entity's own equity was updated to clarify the determination of whether an instrument (or embedded feature) is indexed to an entity's own stock which would qualify as a scope exception from hedge accounting. The updated guidance was effective for the Company's fiscal year beginning August 1, 2009. The adoption had no impact on the Company's consolidated financial position or results of operations.

Accounting for the Useful Life of Intangibles

In April 2008, the ASC guidance for goodwill and other intangibles was updated to amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this update is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset under guidance for business combinations. The updated guidance was effective for the Company's fiscal year beginning August 1, 2009 and was applied prospectively to intangible assets acquired after the effective date. The adoption had no impact on the Company's consolidated financial position, results of operations or cash flows.

NOTE 3 - Equity Based Compensation

In connection with offers of employment to the Company's executives as well as in consideration for agreements with certain consultants, the Company issues options and warrants to acquire its common stock. Employee and non-employee awards are made at the discretion of the Board of Directors.

Such options and warrants may be exercisable at varying exercise prices currently ranging from \$1.40 to \$3.60 per share of common stock. Certain of these grants are exercisable immediately upon grant while others vest. Certain grants have vested or are vesting over a period of between three to five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

The Company accounts for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The Company accounts for non-employee equity based awards in which goods or services are the consideration received for the equity instruments issued at their fair value.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield and expected life. The estimate of the number of forfeitures considers historical employee turnover rates and expectations about the future. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the nine months ended April 30, 2010, and 2009 were \$2.16 and \$1.12. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

| | Nine months ended April 30, | |
|-------------------------|-----------------------------|-----------------|
| | 2010 | 2009 |
| Expected volatility | 71.25% | 69.98-79.72% |
| Risk-free interest rate | 2.48% | 0.86-1.56% |
| Expected dividend yield | - | - |
| Expected life | 5.0 years | 2.0 – 5.0 years |
| Forfeiture rate | - | - |

Stock option and activity for employees during the fiscal years ended July 31, 2009 and 2008, and nine months ended April 30, 2010 are as follows (all tables in thousands, except for option, price and term data):

| | Number of Options | Weighted average exercise price | Weighted average remaining contracted term (years) | Aggregate intrinsic value |
|---------------------------------------|----------------------|--|--|------------------------------|
| Outstanding at July 31, 2007 | 625,000 | \$ 1.36 | 1.20 | \$ 255 |
| Options granted* | 625,000 | 2.52 | - | - |
| Options exercised | (362,500) | 1.28 | - | - |
| Options expired | - | - | - | - |
| Outstanding at July 31, 2008 | 887,500 | \$ 2.20 | 4.00 | \$ 334 |
| Options granted* | 250,000 | 1.96 | - | - |
| Options exercised | (176,432) | 1.48 | - | - |
| Options expired | (86,068) | 1.40 | - | - |
| Options outstanding at July 31, 2009 | 875,000 | \$ 2.36 | 5.18 | \$ 70 |
| Options granted* | 500,000 | \$ 3.60 | - | - |
| Options exercised | (26,932) | 2.18 | - | - |
| Options expired | (322,235) | 2.26 | - | - |
| Options outstanding at April 30, 2010 | 1,025,833 | \$ 3.00 | 4.61 | \$ 676 |
| Options exercisable at April 30, 2010 | 550,000 | \$ 2.76 | 4.53 | \$ 494 |

* Issuances under 2006 Equity Incentive Plan.

Unvested stock option balances for employees at April 30, 2010 are as follows:

| | Number of Options | Weighted average exercise price | Weighted average remaining contracted term (years) | Aggregate Intrinsic value |
|---|-------------------|--|--|------------------------------|
| Outstanding at July 31, 2007 | 37,500 | \$ 1.28 | 1.67 | \$ 17 |
| Options granted | 625,000 | 2.52 | - | - |
| Options vested | (225,000) | 2.32 | - | - |
| Unvested Options Outstanding at July 31, 2008 | 437,500 | \$ 2.52 | 4.49 | \$ 8 |
| Options granted | 250,000 | 1.96 | - | - |
| Options vested | (250,000) | 2.24 | - | - |
| Unvested Options outstanding at July 31, 2009 | 437,500 | \$ 2.36 | 5.18 | \$ 35 |
| Options granted | 500,000 | 3.60 | - | - |
| Options vested | (237,500) | 3.23 | - | - |
| Options expired | (224,167) | 2.26 | - | - |
| Unvested Options outstanding at April 30, 2010 | 475,833 | \$ 3.28 | 4.71 | \$ 182 |

Stock option and warrant activity for non-employees during the years ended July 31, 2009 and 2008, and nine months ended April 30, 2010 are as follows:

| | Number of options | Weighted average exercise price | Weighted average remaining contracted term (years) | Aggregate Intrinsic value |
|--|----------------------|--|--|------------------------------|
| Warrants and options outstanding at July 31, 2007 | 5,633,886 | \$ 1.32 | 1.48 | \$ 2,578 |
| Options granted* | 428,750 | 2.64 | | |
| Options exercised | (5,388,886) | 1.32 | - | - |
| Options expired | (170,000) | 1.20 | - | - |
| Warrants and options outstanding at July 31, 2008 | 503,750 | \$ 2.48 | 3.54 | \$ 54 |
| Options granted | 350,000 | 2.00 | - | - |
| Options exercised | (37,500) | 1.56 | - | - |
| Options expired | (37,500) | 1.56 | - | - |
| Warrants and options outstanding at July 31, 2009 | 778,750 | \$ 2.36 | 3.36 | \$ 73 |
| Options granted | 187,500 | 3.60 | - | - |
| Options exercised | (48,502) | 1.77 | - | - |
| Options expired | (305,248) | 2.21 | - | - |
| Warrants and options outstanding at April 30, 2010 | 612,500 | \$ 2.84 | 3.07 | \$ 489 |
| Warrants and options exercisable at April 30, 2010 | 429,166 | \$ 2.84 | 1.78 | \$ 353 |

* 278,750 issued under 2006 Equity Incentive Plan.

Unvested stock option balances for non-employees at April 30, 2010 are as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted average remaining contracted term (years) | Aggregate Intrinsic value |
|--|----------------------|--|--|---------------------------------|
| Outstanding at July 31, 2007 | - | - | - | - |
| Options granted | 162,500 | 2.52 | - | - |
| Options vested | (48,750) | 2.52 | - | - |
| Outstanding at July 31, 2008 | 113,750 | \$ 2.52 | 4.49 | \$ 3 |
| Options granted | 318,750 | 1.96 | - | - |
| Options vested | (191,875) | 2.04 | - | - |
| Outstanding at July 31, 2009 | 240,625 | \$ 2.16 | 4.88 | \$ 70 |
| Options granted | 187,500 | 3.60 | - | - |
| Options vested | (129,166) | 3.07 | - | - |
| Options expired | (115,625) | 2.35 | - | - |
| Unvested options outstanding at April 30, 2010 | 183,334 | \$ 2.85 | 4.30 | \$ 148 |

The impact on the Company's results of operations of recording equity based compensation for the nine months ended April 30, 2010 and 2009, for employees and non-employees was approximately \$911 and \$798 and reduced earnings per share by \$0.02 and \$0.02 per basic and diluted share, for each period. The Company has not recognized any tax benefit or expense for the nine months ended April 30, 2010 and 2009, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 18).

As of April 30, 2010, there was approximately \$232 of unrecognized equity based compensation cost related to options granted which have not yet vested.

NOTE 4 - Marketable Securities

Marketable securities are classified as current assets and are summarized as follows:

| | (in thousands) | |
|---|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Marketable equity securities, at cost | \$ 50 | \$ 50 |
| Marketable equity securities, at fair value (See Note 14) | \$ 75 | \$ 35 |

NOTE 5 – Material and Supplies Inventories

| | (in thousands) | |
|-------------------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Materials, supplies and other | \$ 2,109 | \$ 1,381 |
| Total | \$ 2,109 | \$ 1,381 |

NOTE 6 - Ore on Leach Pads and Inventories (“In-Process Inventory”)

| | (in thousands) | |
|-------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Ore on leach pads | \$ 30,767 | \$ 20,024 |
| Total | \$ 30,767 | \$ 20,024 |

Costs that are incurred in or benefit the productive process are accumulated as ore on leach pads and inventories. Ore on leach pads and inventories are carried at the lower of average cost or market. The current portion of ore on leach pads and inventories is determined based on the amounts to be processed within the next 12 months.

In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the ore and the specific processing facility. In-process material are measured based on assays of the material fed into the process and the projected recoveries of the respective plants. In-process inventories are valued at the average cost of the material fed into the process attributable to the source material coming from the mines and/or leach pads plus the in-process conversion costs, including applicable depreciation relating to the process facilities incurred to that point in the process.

NOTE 7 – Other Current Assets

Other current assets consist of the following:

| | (in thousands) | |
|--------------------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Value added tax to be refunded | \$ 765 | \$ 1,032 |
| MRS receivable | 219 | - |
| Loans receivable – affiliate | 30 | 33 |
| Deposit | 4 | 26 |
| Other | - | 10 |
| Total Other Current Assets | \$ 1,018 | \$ 1,101 |

On January 25, 2010, the Company entered into a Collateral Agreement (the “Collateral Agreement”) with Metal Recovery Solutions, LLC (“MRS”), a privately-held Nevada company, in which it was proposed that the Company would acquire twenty-five percent of all of the issued and outstanding equity of MRS for aggregate investment of \$2,000. The Collateral Agreement required the Company to promptly pay \$500 to MRS, with the Company’s intention to invest the remaining \$1,500 being set forth in a letter of intent (the “LOI”) entered into on January 25, 2010, the material terms of which were non-binding. The Company’s obligation to invest the remaining \$1,500 was contingent upon the execution of a definitive Investment Agreement (the “Investment Agreement”). Because the Investment Agreement was not consummated, the Collateral Agreement provides that the \$500 payment to MRS would be repaid with interest (the “MRS Repayment”). Such repayment is secured by cash flows from MRS’s Consulting / Services Agreement with a third-party gold mining company, the expected value of which is \$1,275 to MRS.

On March 25, 2010, the Company elected not to pursue the implementation of the MRS technology at its El Chanate mine. Accordingly, the Company has demanded repayment of the amounts paid to MRS in accordance with the letter agreement between MRS and the Company. On May 12, 2010, the parties agreed to reduce the MRS Repayment to \$450 and the Company agreed to accept payment over a two year period in equal monthly installments, subject to the negotiation of a definitive settlement agreement. The Company recorded the current portion of \$219 within Other Current Assets with the remaining amount due of \$231 within Other Long-Term Assets. Interest shall accrue on the outstanding balance at 5% until the principal and any accrued interest is paid in full (See Note 21).

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

| | (in thousands) | |
|----------------------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Process equipment and facilities | \$ 31,416 | \$ 26,477 |
| Mining equipment | 2,494 | 2,248 |
| Mineral properties | 175 | 175 |
| Construction in progress | 181 | 70 |
| Computer and office equipment | 396 | 389 |
| Improvements | 16 | 16 |
| Furniture | 48 | 47 |
| Total | 34,726 | 29,422 |
| Less: accumulated depreciation | (9,592) | (7,005) |
| Property and equipment, net | \$ 25,134 | \$ 22,417 |

Depreciation expense for the nine months ended April 30, 2010 and 2009 was approximately \$2,023 and \$1,502, respectively.

NOTE 9 - Intangible Assets

Intangible assets consist of the following:

| | (in thousands) | |
|--|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Water Rights | 510 | 241 |
| Reforestation fee | 198 | 73 |
| Mobilization Payment to Mineral Contractor | 70 | 70 |
| Investment in Right of Way | 18 | 18 |
| Total | 796 | 402 |
| Accumulated Amortization | (124) | (84) |
| Intangible assets, net | \$ 672 | \$ 318 |

Purchased intangible assets consisting of rights of way, water rights, easements, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the Units of Production (“UOP”) method. It is the Company’s policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with ASC guidance for goodwill and other intangibles. There was no impairment at April 30, 2010.

Amortization expense for the nine months ended April 30, 2010 and 2009 was approximately \$40 and \$33, respectively.

NOTE 10 - Mining Concessions

Mining concessions consists of the following:

| | (in thousands) | |
|--------------------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| El Chanate | \$ 49 | \$ 45 |
| El Charro | 25 | 25 |
| Total | 74 | 70 |
| Less: accumulated amortization | (22) | (19) |
| Total | \$ 52 | \$ 51 |

The El Chanate concessions are carried at historical cost and are being amortized using the UOP method. Amortization expense for the nine months ended April 30, 2010 and 2009 was approximately \$3 and \$6, respectively.

NOTE 11 - Reclamations and Remediation Liabilities (“Asset Retirement Obligations”)

The Company includes environmental and reclamation costs on an ongoing basis, in our internal revenue and cost projections. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect the Company’s planned operations. As of April 30, 2010, we estimated the reclamation costs for the El Chanate site to be approximately \$3,766. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset

Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of April 30, 2010 primarily due to the addition of the new leach pad. As of April 30, 2010, approximately \$2,016 was accrued for reclamation obligations relating to mineral properties in accordance with ASC guidance for asset retirement and environmental obligations.

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the nine months ended April 30, 2010:

| | (in thousands) |
|---|-------------------|
| Balance as of July 31, 2009 | \$ 1,594 |
| Additions, changes in estimates and other | 434 |
| Liabilities settled | (123) |
| Accretion expense | 111 |
| Balance as of April 30, 2010 | \$ 2,016 |

NOTE 12 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of foreign currency translation gains and losses, unrealized gains and losses on marketable securities and fair value changes on derivative instruments and is summarized as follows:

| | Foreign currency items | Unrealized (loss) on securities | Change in fair value of interest rate swaps | Accumulated other comprehensive income |
|------------------------------|---------------------------|------------------------------------|---|--|
| Balance as of July 31, 2009 | \$ (2,050) | \$ (15) | \$ 87 | \$ (1,978) |
| Income (loss) | 1,516 | 40 | 122 | 1,678 |
| Balance as of April 30, 2010 | \$ (534) | \$ 25 | \$ 209 | \$ (300) |

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the year ended July 31, 2009 and the nine months ended April 30, 2010 due to the existence of net operating losses.

NOTE 13 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately \$4 and \$5 in expense reimbursements including office rent from this entity for the nine months ended April 30, 2010, and 2009, respectively (See Note 4).

The Company utilizes Caborca Industrial, a Mexican corporation that is 100% owned by Gifford A. Dieterle, the Company's former Chief Executive Officer, and another officer and director of the Company. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. The profit from Caborca Industrial represents additional remuneration paid quarterly to the workers at the mine. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately \$4,182 and \$3,561 for the nine months ended April 30, 2010 and 2009, respectively.

The Company incurred approximately \$7 and \$15 during the nine months ended April 30, 2010 and 2009, respectively, for services provided related to marketing materials. The firm providing the services is owned and operated by relatives of the Company's President and COO, John Brownlie.

On September 17, 2009, the Company terminated Jeffrey W. Pritchard as Executive Vice President and Secretary of the Company without cause pursuant to a restructuring of its corporate investor relations functions. The termination was effective September 15, 2009. Mr. Pritchard also resigned as a Director of the Company effective September 29, 2009. As part of the settlement, Mr. Pritchard received a lump sum payment of approximately \$426.

On January 19, 2010, the Compensation Committee of the Board of Directors of the Company approved a new employment agreement (the "Agreement") for John Brownlie, the Company's President, Chief Operating Officer and a Director of the Company. The term of the agreement is for three years commencing January 19, 2010, and will automatically extend for consecutive one-year terms unless Mr. Brownlie or the Company notifies the other party that it does not wish to extend the Agreement. The Agreement provides for an initial base salary to Mr. Brownlie of \$275 plus an immediate payment of \$375 for reaching certain milestones. The Agreement provides for an additional payment upon the accomplishment of other goals. The Agreement also grants Mr. Brownlie 500,000 stock options. The exercise price of the stock options is \$3.60 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 500,000 options. For the nine months ended April 30, 2010, the Company recorded approximately \$360 in equity compensation expense on the vested portion of these stock options. The grant date fair value of each stock option was \$2.16. The stock options have a term of five years and vest as follows: one-third vested upon issuance and the balance vests on a one-third basis annually thereafter.

On March 11, 2010, the Company entered into an agreement with Gifford A. Dieterle, the Chief Executive Officer ("CEO") of the Company and Chairman of the Board, pursuant to which Mr. Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010. Pursuant to the agreement, Mr. Dieterle is to receive lump sum payments totaling approximately \$376 in September 2010, and additional payments totaling approximately \$288 during 2011. In addition, Mr. Dieterle will receive \$100 in shares of the Company's common stock in September 2010.

On April 29, 2010, the Company entered into a severance agreement and general release with John Brownlie, the Company's President and Chief Operating Officer ("COO"), pursuant to which Mr. Brownlie's employment agreement will terminate and he will resign as President and COO effective upon the earlier of the consummation of the Business combination between the Company and Nayarit Gold or July 1, 2010. Pursuant to the Severance Agreement, Mr. Brownlie will be entitled to severance payments in the aggregate amount of approximately \$1,388, payable over a six month period; along with an additional \$375 if the closing of the business combination occurs on or prior to the date which is 120 days from the date of the severance agreement.

NOTE 14 - Stockholders' Equity

Common Stock

The Company received proceeds of approximately \$53 during the nine months ended April 30, 2010 from the exercising of an aggregate of 31,250 options issued to officers and directors. The Company also issued 44,184 shares upon the cashless exercising of options during the nine months ended April 30, 2010.

As part of the settlement agreement with the Company's former Executive Vice-President, upon his termination without cause, the unvested portion of a previous restricted share grant of 41,667 shares was forfeited. As part of the severance agreement with the Company's former Chief Executive Officer, the unvested portion of a previous restricted share grant of 20,833 shares was forfeited. An additional 833 shares, the unvested portion of a previous restricted share grant, was forfeited by a former employee of the Company.

During the nine months ended April 30, 2010 and 2009, the Company recorded approximately \$911 and \$675 in equity compensation expense related to the vesting of restricted stock grants and stock options, respectively. As of April 30, 2010, the total compensation cost related to unvested restricted stock granted, but not yet recognized, was \$97.

The Company accounts for non-employee equity based awards in which goods or services are the consideration received for the equity instruments issued at their fair value.

Stock Split

On January 25, 2010, the Company announced that, to meet minimum share price requirements in connection with its NYSE Amex listing, it effected a reverse stock split, with every four (4) shares of common stock of the Company issued and outstanding being converted into one (1) share of common stock. The reverse split was originally approved by shareholders at the Annual Shareholders Meeting held on October 31, 2008 and subsequently ratified by shareholders at the recent Annual Shareholders Meeting held on January 19, 2010. No fractional common shares will be issued in connection with the reverse split. A holder of common shares, who otherwise would have been entitled to receive a fractional share as a result of the reverse split, will receive an amount in cash equal to the dollar amount multiplied by such fractional entitlement.

On February 1, 2010, the securities of Capital Gold Corporation were approved by the NYSE Amex LLC (the "Exchange") for listing and registration.

2006 Equity Incentive Plan

The 2006 Equity Incentive Plan (the "Plan"), approved by stockholders on February 21, 2007, is intended to attract and retain individuals of experience and ability, to provide incentive to the Company's employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in the Company, and to encourage employees to remain in the Company's employ.

The Plan authorizes the grant of non-qualified and incentive stock options, stock appreciation rights and restricted stock awards (each, an "Award"). A maximum of 4,375,000 shares of common stock are reserved for potential issuance pursuant to Awards under the Plan. Unless sooner terminated, the Plan will continue in effect for a period of 10 years from its effective date.

The Plan is administered by the Company's Board of Directors which has delegated the administration to the Company's Compensation Committee. The Plan provides for Awards to be made to such of the Company's employees, directors and consultants and its affiliates as the Board may select.

Stock options awarded under the Plan may vest and be exercisable at such times (not later than 10 years after the date of grant) and at such exercise prices (not less than Fair Market Value at the date of grant) as the Board may determine. Unless otherwise determined by the Board, stock options shall not be transferable except by will or by the laws of descent and distribution. The Board may provide for options to become immediately exercisable upon a "change in control," as defined in the Plan.

On July 23, 2009, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, the Company amended the 2006 Equity Incentive Plan to provide for cashless exercises of options by participants under the Plan. Payment of the option exercise price may now be made (i) in cash or by check payable to the Company, (ii) in shares of Common Stock duly owned by the option holder (and for which the option holder has good title free and clear of any liens and encumbrances), valued at the fair market value on the date of exercise, or (iii) by delivery back to the Company from the shares acquired on exercise of the number of shares of common stock equal to the exercise price, valued at the fair market value on the date of exercise. Previously, the exercise price of an option must have been paid in cash. No options may be granted under the Plan after the tenth anniversary of its effective date. Unless the Board determines otherwise, there are certain continuous service requirements.

On January 19, 2010, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 500,000, 50,000, 50,000, 50,000 and 37,500 options to John Brownlie, Leonard J. Sojka, John Cutler, Stephen Cooper and Trey Wasser, respectively, aggregating 687,500 stock options under our 2006 Equity Incentive Plan. The stock options for John Brownlie and Trey Wasser have a term of five years and vest as follows: one-third vested upon issuance and the balance vests on a one-third basis annually thereafter. The stock options for Leonard J. Sojka, John Cutler, and Stephen Cooper have a term of five years and vest 25,000 on January 19, 2010, 12,500 on January 19, 2011 and 12,500 on January 19, 2012. The exercise price of the stock options is \$3.60 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 687,500 options received by these individuals totaling \$1,486. For the nine months ended April 30, 2010, the Company recorded approximately \$603 in equity compensation expense on the vested portion of these stock options. The grant date fair value of each stock option was \$2.16.

The Plan provides the Board with the general power to amend the Plan, or any portion thereof at any time in any respect without the approval of the Company's stockholders, provided however, that the stockholders must approve any amendment which increases the fixed maximum percentage of shares of common stock issuable pursuant to the Plan, reduces the exercise price of an Award held by a director, officer or ten percent stockholder or extends the term of an Award held by a director, officer or ten percent stockholder. Notwithstanding the foregoing, stockholder approval may still be necessary to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), Rule 16b-3 of the Securities Exchange Act of 1934, as amended or any applicable stock exchange listing requirements. The Board may amend the Plan in any respect it deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith. Rights under any Award granted before amendment of the Plan cannot be impaired by any amendment of the Plan unless the Participant consents in

writing. The Board is empowered to amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the applicable Participant consents in writing and further provided that the Board cannot amend the exercise price of an option, the Fair Market Value of an Award or extend the term of an option or Award without obtaining the approval of the stockholders if required by the rules of the Toronto Stock Exchange or any stock exchange upon which the common stock is listed.

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NOTE 15 - Debt

Long term debt consists of the following:

| | (in thousands) | |
|----------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Total long-term debt | \$ 5,300 | \$ 8,000 |
| Less current portion | 3,600 | 3,600 |
| Long-term debt | \$ 1,700 | \$ 4,400 |

In September 2008, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") involving our wholly owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank, as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006. Under the Credit Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to US\$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of April 30, 2010 and 2009, the accrued interest on the Term Loan was approximately \$12 and \$28, respectively.

Term Loan principal shall be repaid quarterly. Payments commenced on September 30, 2008 and consisted of four payments in the amount of \$1,125, followed by eight payments in the amount of \$900 and two final payments in the amount of \$400. There is no prepayment fee. Principal under the Term Loan shall bear interest at a rate per annum equal to the LIBOR Rate plus 2.5% per annum.

The Credit Agreement contains covenants customary for a term note, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, declaring or paying dividends, disposing of any assets, merging with other companies and making any investments. The Company is required to meet and maintain certain financial covenants, including (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S.\$15,000, and (iii) a quarterly average minimum liquidity of U.S.\$500.

As of April 30, 2010, the Company and its related entities were in compliance with all debt covenants and default provisions. The accounts of Caborca Industrial are not subject to the debt covenants and default provisions.

The Term Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro. As additional collateral for the Loan, the Company, together with its subsidiary, Leadville Mining & Milling Holding Corporation, has pledged all of its ownership interest in MSR and Oro.

On September 17, 2009, our \$5,000 revolving loan contained within the Credit Agreement expired. The Company had not drawn on this facility during the term period.

In December 2009, the Company executed a mandate letter with Standard Bank which set forth terms and conditions for amending the Credit Agreement to add a revolving loan of \$15,000 to the existing Term Loan. The revolving loan would have a term of one year and shall bear interest at a rate per annum equal to the LIBOR Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. The Applicable Margin for the Term Loan is 3.0% per annum. There were no significant changes to the existing Term Loan. The revolving loan is subject to credit and regulatory approval as well as legal, regulatory, technical and financial due diligence. We incurred an arrangement fee of \$150 in connection with executing the mandate letter which will be amortized over the term of the revolving loan.

Future principal payments on the term loan are as follows (in thousands):

Fiscal Years Ending July 31,

| | | |
|------|----|-------|
| 2010 | \$ | 900 |
| 2011 | | 3,600 |
| 2012 | | 800 |
| | \$ | 5,300 |

NOTE 16 - Sales Contracts, Commodity and Financial Instruments

Interest Rate Swap Agreements

On October 11, 2006, prior to our initial draw on the Credit Agreement, the Company entered into interest rate swap agreements covering about 75% of the expected variable rate debt exposure. Only 50% coverage is required under the Credit Agreement. The termination date on this swap position is December 31, 2010. However, the Company intends to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as it deems appropriate. In any case, the Company's use of interest rate derivatives will be restricted to use for risk management purposes.

The Company uses variable-rate debt to finance a portion of the El Chanate Project. Variable-rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. As a result of these arrangements, the Company will continuously monitor changes in interest rate exposures and evaluate hedging opportunities. The Company's risk management policy permits it to use any combination of interest rate swaps, futures, options, caps and similar instruments, for the purpose of fixing interest rates on all or a portion of variable rate debt, establishing caps or maximum effective interest rates, or otherwise constraining interest expenses to minimize the variability of these effects.

The interest rate swap agreements are accounted for as cash flow hedges, whereby “effective” hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidentally with the earnings impact of the interest expenses being hedged. “Ineffective” hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness. The amount expected to be reclassified from other comprehensive income to earnings during the year ending July 31, 2010 from these two swaps was determined to be immaterial.

The following is a reconciliation of the derivative contract regarding the Company’s Interest Rate Swap agreements:

| | (in thousands) | |
|--|----------------|-------|
| Liability balance as of July 31, 2009 | \$ | 193 |
| Change in fair value of swap agreement | | 26 |
| Net cash settlements | | (147) |
| Liability balance as of April 30, 2010 | \$ | 72 |

The Company is exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but the Company does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitors the market position with each counterparty as required by ASC guidance for derivatives and hedging.

The Effect of Derivative Instruments on the Statement of Operations (in thousands):

| Quarter Ended | Derivatives in Cash Flow Hedging Relationships | Effective Results Recognized in OCI | Location of Results Reclassified from AOCI to Earnings | Amount Reclassified from AOCI to Income | Ineffective Results Recognized in Earnings | Location of Ineffective Results |
|---------------|--|-------------------------------------|--|---|--|---------------------------------|
| 7/31/08 | Interest Rate contracts | \$ 19 | Interest Income (Expense) | (49) | - | N/A |
| 10/31/08 | Interest Rate contracts | \$ (38) | Interest Income (Expense) | (38) | - | N/A |
| 1/31/09 | Interest Rate contracts | \$ (95) | Interest Income (Expense) | (35) | - | N/A |
| 4/30/09 | Interest Rate contracts | \$ (16) | Interest Income (Expense) | (55) | - | N/A |
| 7/31/09 | Interest Rate contracts | \$ (19) | Interest Income (Expense) | (55) | - | N/A |
| 10/31/09 | Interest Rate contracts | \$ (16) | Interest Income (Expense) | (53) | - | N/A |
| 1/31/10 | Interest Rate contracts | \$ (8) | Interest Income (Expense) | (48) | - | N/A |
| 4/30/10 | Interest Rate contracts | \$ (1) | Interest Income (Expense) | (38) | - | N/A |

Fair Value of Derivative Instruments in a Statement of Financial Position and the Effect of Derivative Instruments on the Statement of Financial Performance (in thousands):

| July 31, 2008 | Liability Derivatives | |
|---|------------------------|-------------|
| | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 192 |
| Derivatives designated as non-hedging instruments | | |
| Gold derivatives | Current Liabilities | \$ 738 |
| Liability Derivatives | | |
| October 31, 2008 | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 199 |
| Derivatives designated as non-hedging instruments | | |
| Gold derivatives | Current Liabilities | \$ 734 |
| Liability Derivatives | | |
| January 31, 2009 | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 268 |
| Derivatives designated as non-hedging instruments | | |
| Gold derivatives | Current Liabilities | \$ 719 |
| Liability Derivatives | | |
| April 30, 2009 | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 228 |
| Liability Derivatives | | |
| July 31, 2009 | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 193 |
| Liability Derivatives | | |
| October 31, 2009 | Balance Sheet Location | Fair Values |
| Derivatives designated as hedging instruments | | |
| Interest rate derivatives | Current Liabilities | \$ 154 |
| January 31, 2010 | Balance Sheet Location | Fair Values |

Derivatives designated as hedging instruments

| | | | |
|---------------------------|---------------------|----|-----|
| Interest rate derivatives | Current Liabilities | \$ | 112 |
|---------------------------|---------------------|----|-----|

April 30, 2010 Balance Sheet Location Fair Values

Derivatives designated as hedging instruments

| | | | |
|---------------------------|---------------------|----|----|
| Interest rate derivatives | Current Liabilities | \$ | 72 |
|---------------------------|---------------------|----|----|

NOTE 17– Accrued Expenses

Accrued expenses consist of the following:

| | (in thousands) | |
|--------------------------------------|-------------------|------------------|
| | April 30, 2010 | July 31, 2009 |
| Net smelter return | \$ 374 | \$ 212 |
| Mining contract | 425 | 30 |
| Income tax payable | 2,929 | 507 |
| Utilities | 172 | 128 |
| Interest | 12 | 21 |
| Legal and professional | 60 | 125 |
| Salaries, wages and related benefits | 2,916 | 533 |
| Deferred Financing Costs | 159 | - |
| Other liabilities | 67 | 77 |
| | \$ 7,114 | \$ 1,633 |

NOTE 18 - Income Taxes

The Company's Income tax (expense) benefit consisted of:

| | (in thousands) | | (in thousands) | |
|------------------|---|-------------------|--|-------------------|
| | For The Three Months Ended April 30, 2010 | April 30, 2009 | For The Nine Months Ended April 30, 2010 | April 30, 2009 |
| Current: | | | | |
| United States | \$ - | \$ - | \$ - | \$ - |
| Foreign | (2,946) | (2,154) | (6,943) | (4,078) |
| | (2,946) | (2,154) | (6,943) | (4,078) |
| Deferred: | | | | |
| United States | - | - | - | - |
| Foreign | - | 39 | - | (746) |
| | - | 39 | - | (746) |
| Total | \$ (2,946) | \$ (2,115) | \$ (6,943) | \$ (4,824) |

The Company's Income (loss) before income tax consisted of:

| | (in thousands) | | (in thousands) | |
|---------------|---|-------------------|--|-------------------|
| | For The Three Months Ended April 30, 2010 | April 30, 2009 | For The Nine Months Ended April 30, 2010 | April 30, 2009 |
| United States | \$ (4,046) | \$ (1,637) | \$ (8,270) | \$ (4,602) |
| Foreign | 9,771 | 6,306 | 23,876 | 17,113 |
| Total | \$ 5,725 | \$ 4,669 | \$ 15,606 | \$ 12,511 |

The Company's current intent is to permanently reinvest its foreign affiliate's earnings; accordingly, no U.S. income taxes have been provided for the unremitted earnings of the Company's foreign affiliate.

On October 1, 2007, the Mexican Government enacted legislation which introduces certain tax reforms as well as a new minimum flat tax system, which was effective for tax year 2008. This new flat tax system integrates with the regular income tax system and is based on cash-basis net income that includes only certain receipts and expenditures. The flat tax is set at 17.5% of cash-basis net income for tax year 2010, which increased from 17% for tax year 2009. If the flat tax is positive, it is reduced by the regular income tax and any excess is paid as a supplement to the regular income tax. For the tax year 2010, the Mexican Government introduced a reform where if the flat tax is negative, companies will not be permitted to reduce the income tax, as it may only serve to reduce the regular flat tax payable in that year or can be carried forward for a period of up to ten years to reduce any future flat tax.

On January 1, 2010, the Mexican government enacted legislation, which increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to 29% in 2013 and then back to 28% in 2014, according to legislation.

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. There is the possibility of implementation amendments by the Mexican Government and the estimated future income tax liability recorded at the balance sheet date may change.

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized; in accordance with ASC guidance for income taxes. Net deferred tax benefits related to the U.S. operations have been fully reserved. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

NOTE 19 - Fair Value Measurements

ASC guidance for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by ASC guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

| | Fair Value at April 30, 2010 (in thousands) | | | |
|-----------------------|--|----------|---------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Cash equivalents | \$ 2,796 | \$ 2,796 | \$ - | \$ - |
| Marketable securities | 75 | 75 | - | - |
| | \$ 2,871 | \$ 2,871 | \$ - | \$ - |
| Liabilities: | | | | |
| Interest rate swap | 72 | - | 72 | - |
| | \$ 72 | \$ - | \$ 72 | \$ - |

The Company's cash equivalent instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash instruments that are valued based on quoted market prices in active

markets are primarily money market securities.

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The Company's marketable equity securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable equity securities is calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

The Company has an interest rate swap contract to hedge a portion of the interest rate risk exposure on its outstanding loan balance. The interest rate swap related to the hedged portion of the Company's debt is valued using pricing models which require inputs, including risk-free interest rates and credit spreads. Because the inputs are derived from observable market data, the hedged portion of the debt is classified within Level 2 of the fair value hierarchy.

NOTE 20 – Business Combination

On February 10, 2010, Capital Gold Corporation (the "Company") entered into a business combination agreement (the "Business Combination Agreement") with Nayarit Gold Inc., ("Nayarit"), a corporation organized under the Ontario Business Corporation Act ("OBCA"). Pursuant to the terms of the Business Combination Agreement, the Company and Nayarit intend to effect an amalgamation (the "Amalgamation") of Nayarit and a corporation, to be organized under the OBCA as a wholly-owned subsidiary of the Company ("Merger Sub"), to form a combined entity ("AmalgSub" or "Surviving Company"), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub shall thereupon cease, and AmalgSub, as the surviving company in the Amalgamation, shall continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Business Combination Agreement, by virtue of the Amalgamation and without any action on the part of Nayarit or the holders of any securities of Nayarit, all of the Nayarit shares of common stock (the "Nayarit Common Shares") issued and outstanding immediately prior to the consummation of the Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) shall become exchangeable into the Company's common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share (the "Amalgamation Consideration"). The Company anticipates closing this transaction in August 2010; however, no assurance can be given that the transaction will be consummated.

NOTE 21 – Subsequent Events

On May 12, 2010, the Company and MRS agreed to reduce the MRS Repayment to \$450 and the Company agreed to accept payment over a two year period in equal monthly installments, subject to the negotiation of a definitive settlement agreement.. Interest shall accrue on the outstanding balance at 5% until the principal and any accrued interest is paid in full (See Note 7).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(in thousands, except for per share and ounce amounts)

Cautionary Statement on Forward-Looking Statements

Certain statements in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Certain of such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact, included in this report regarding our financial position, business and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding exploration, costs, grade, inventory, production and recovery rates, strip ratio, permitting, financing needs and the availability of financing on acceptable terms or other sources of funding are all forward-looking in nature.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors, including but not limited to, the factors discussed below in Part II; Item 1A. "Risk Factors," which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and other factors referenced in this report. We do not undertake and specifically decline any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

We utilize certain Non-GAAP performance measures and ratios in managing the business and may provide users of this financial information with additional meaningful comparisons between current results and results in prior operating periods. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, the reported operating results or cash flow from operations or any other measure of performance prepared in accordance with accounting principles generally accepted in the United States. In addition, the presentation of these measures may not be comparable to similarly titled measures other companies use.

General

Capital Gold Corporation (the "Company", "we" or "our") is a gold production and exploration company. Through our wholly owned subsidiaries, we own 100% of 16 mining concessions totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles) located in the Municipality of Altar, State of Sonora, Republic of Mexico. We commenced mining operations on two of these concessions in late March 2007 and achieved gold production and revenue from operations in early August 2007. We sometimes refer to the operations on these two concessions as the El Chanate Project.

On February 1, 2010, the securities of Capital Gold Corporation were approved by the NYSE Amex LLC for listing and registration.

Receipt of Technical Report for Updated Reserves at El Chanate

As previously announced, during 2009 and subsequent to the fiscal year ended July 31, 2009, we conducted exploration activities in the El Chanate pit area including, core drilling at depth to determine the potential of increasing its reserves further. The data obtained from geological mapping of the deposit's mine pit areas, combined with assays from samples of the exploration drilling therein, were used to expand information in our mine database. SRK Consulting (U.S.), Inc. ("SRK") of Lakewood, Colorado, an independent consulting firm, used this data to re-estimate El Chanate's Mineral Reserves. These efforts resulted in a significant expansion of our reserve estimates, which we reported in our Form 10-K for the year ended July 31, 2009. With the receipt of SRK's technical report titled NI 43-101 Technical Report, Capital Gold Corporation, El Chanate Gold Mine, Sonora, Mexico and dated November 27, 2009 (the "SRK Report"), with respect to the updated reserve estimation and the updated mine plan and mine production schedule, current as of October 1, 2009, we re-published our previously announced reserve estimates along with additional information. The SRK Report complies with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). Both Bart A. Stryhas PhD., Principal Resource Geologist, and Bret C. Swanson, BE(Mining), MAusIMM, are "Qualified Persons" as defined by NI 43-101.

Our proven and probable reserve tonnage increased to 70.6 million metric tonnes with an average gold grade of 0.66 grams per tonne (77.8 million US short tons at 0.0193 ounces per ton). The proven and probable reserve has 1,504,000 contained ounces of gold. The open pit strip ratio for the life of mine is 2.88:1 (2.88 tonnes of waste to one tonne of ore). For the next year, our mine plan anticipates the open pit strip ratio will average 2:1. Determination of operational pre-stripping (increase in strip ratio) will be made after further geological drilling and determination of corporate strategy within the three year window of opportunity. There is also the potential to improve the life of mine strip ratio as the report identifies material within the pit design classified as waste that with additional drilling could be reclassified as ore. The updated pit design for the revised mine plan is based on a plant recovery of gold that varies by rock types, but is expected to average 58.25%. A gold price of US\$800 (SEC three year average as of October 1, 2009) per ounce was used to re-estimate the reserves compared with a gold price of \$750 per ounce used in the previous reserve estimate. The stated proven and probable mineral reserves have been prepared in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). CIM definitions for proven and probable reserves convert directly from measured and indicated mineral resources with the application of appropriate economic parameters. These reserves are equivalent to proven and probable reserves as defined by the United States Securities and Exchange Commission (SEC) Industry Guide 7.

The following summary is extracted from the SRK Report. Please note that the reserves as stated are an estimate of what can be economically and legally recovered from the mine and, as such, incorporate losses for dilution and mining recovery. The 1,504,000 ounces of contained gold represents ounces of gold contained in ore in the ground, and therefore does not reflect losses in the recovery process. Total gold produced is estimated to be 876,000 ounces, or approximately 58.25% of the contained gold. The gold recovery rate is expected to average approximately 58.25% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 48% to 65%. Oxidized and sandstone ore types may have recoveries of about 65%; siltstone ore types recoveries may be about 48% and latite intrusive ore type recoveries may be about 50%.

Production Summary

| | Metric | U.S. |
|------------------------------------|-----------------------------------|-----------------------------------|
| Materials | | |
| Reserves | | |
| Proven | 22.4 Million Tonnes @ 0.70 g/t(1) | 24.7 Million Tons @ 0.0204 opt(1) |
| Probable | 48.2 Million Tonnes @ 0.65 g/t(1) | 53.0 Million Tons @ 0.0189 opt(1) |
| Total Reserves(2) | 70.6 Million Tonnes @ 0.66 g/t(1) | 77.7 Million Tons @ 0.0193 opt(1) |
| Waste | 203.5 Million Tonnes | 224.3 Million Tons |
| Total Ore/Waste | 274.1 Million Tonnes | 302.0 Million tons |
| Contained Gold | | |
| | 46.78 Million grams | 1,504,000 Oz |
| Production | | |
| | 5.4 Million Tonnes /Year | 6.0 Million Tons/Year |
| Ore Crushed | 14,868 Mt/d(1) | 16,390 t/d(1) |
| Operating Days/Year | | |
| | 365 Days per year | 365 Days per year |
| Gold Plant Average Recovery | | |
| | 58.25 % | 58.25% |
| Average Annual Production | | |
| | 2.1 Million grams | 67,391 Oz |
| Total Gold Produced | | |
| | 27.25 Million grams | 876,080 Oz |

(1) “g/t” means grams per metric tonne, “opt” means ounces per ton, “Mt/d” means metric tonnes per day and “t/d” means tons per day.

(2) The reserve estimates are mainly based on a gold cutoff grade of 0.15 g/t for sandstone and 0.19 grams for siltstone and latite within the pit design.

The SRK resource estimation is based on information from 371 holes for a total of 55,294 meters of drilling. There are 333 reverse circulation holes and 38 core holes. The drill holes were carefully logged, sampled and tested with gold fire assay (industry standard). A geological model was constructed based on four general rock groups which are cut by thrust faults and normal faults. The mineral resource model blocks are 6m (meters) x 6m x 6m. All block grade estimates were made using 6m bench composites. An ordinary Kriging algorithm was employed to generate a categorical indicator grade shell based on a 0.1ppm gold threshold. An inverse distance cubed algorithm was used for the gold grade estimation within the grade shells.

The life of mine plan used as the basis for the reserve is based on operating gold cutoff grades of 0.15 to 0.19 g/t, depending on the ore type to be processed. The internal (in-pit) and break even cutoff grade calculations are as follows:

| Cutoff Grade Calculation | Internal Cutoff Grade | Break Even Cutoff Grade |
|--|------------------------|-------------------------|
| Basic Parameters | | |
| Gold Price | US\$800/oz | US\$800/oz |
| Gold Selling Cost (4% Royalty, Refining, Transport, Silver Credit, etc) | \$25.258/oz | \$25.258/oz |
| Gold Recovery* | 58.25% | 58.25% |
| Operating Costs per Tonne of Ore | | |
| Mining | | \$1.08/tonne |
| Processing – Heap leach | \$2.357/tonne | \$2.357/tonne |
| Total | \$2.357/tonne | \$3.44/tonne |
| Cutoff Grade | | |
| | Grams per Tonne | Grams per Tonne |
| Head Grade Cutoff (58.25% average recovery) | 0.15 g/t gold | 0.24 g/t gold |
| Recovered Gold Grade Cutoff | 0.09 g/t gold | 0.14 g/t gold |

* Plant recovery of gold varies by rock type but weighted average gold recovery is expected to average 58.25% based on work done to date.

In August 2009, we initiated the construction of an additional leach pad area with capacity for eight million tonnes of ore, at an estimated cost of approximately \$3,300. Permitting and site clearing was completed, the construction contractor completed the earthworks and the geomembrane liners were applied to the new leach pad area. We initiated leaching of ore on the new leach pad as of December 31, 2009. Golder Engineering of Tucson, Arizona oversaw construction activities and quality control and assurance for the project. The final actual construction cost of this additional leach pad area is anticipated to be less than \$3,000.

In December 2009, we completed the procurement and commissioning of a new tertiary crusher for the El Chanate mine. The cost for this equipment was approximately \$1,100. We also upgraded the platform supports for three of our crushers in May 2010. We anticipate these upgrades to cost approximately \$750.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately \$7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the aggregate capacity will be approximately 20.1 million tonnes. This capital expenditure is anticipated to be expended over the next sixteen months. Site clearing was initiated this month and construction is anticipated to commence in July 2010. The first panel is anticipated to be ready for stacking towards the end of the calendar year.

We commenced a drill campaign during the current quarter within the El Chanate pit area which will consist of approximately 84 reverse circulation drill holes totaling approximately 8,400 meters. To date, we have drilled 23 holes totaling 2,580 meters. Most of these holes will be focused on the western part of the pit to further define the ore body and provide a better mine plan going forward. In addition, some holes will test the outer limits of the pit and also provide condemnation within the proposed additional leach pad area as noted above.

The following table represents a summary of our proven and probable mineral reserves.

| Proven and probable mineral reserve (Ktonnes of ore) | April 30, 2010 | July 31, 2009 |
|--|-------------------|------------------|
| Ore | - | - |
| Beginning balance (Ktonnes) | 40,911 | 35,417 |
| Additions | 30,388 | 9,342 |
| Reductions | (3,438) | (3,848) |
| Ending Balance | 67,861 | 40,911 |
| Contained gold | | |
| Beginning balance (thousand of ounces) | 859 | 719 |
| Additions | 662 | 239 |
| Reductions | (83) | (99) |
| Ending Balance | 1,438 | 859 |

El Oso Project - Saric Properties – Sonora, Mexico

In April 2008, we leased 12 mining concessions totaling 1,789 hectares located northwest of Saric, Sonora. In addition, we own a claim for approximately 2,233 additional hectares adjacent to this property. The approximate 4,022 hectare area is accessible by paved roads and has cellular phone service from hilltops. These concessions and this claim are about 60 miles northeast of the El Chanate project. Mineralization is evident throughout the concession group and is hosted by shear zones and stockwork quartz veins in volcanic and intrusive rocks. We have completed exploration work consisting of geological mapping, systematic geochemical sampling of rock and soils, geophysical surveys, trenching and 73 reverse circulation drill holes totaling 6,121 meters and more recently a one meter interval topographic survey over the concession area. SRK of Lakewood, Colorado has visited the site and has monitored the quality assurance and quality control during these drill campaigns. SRK will also assist on the next phase of the exploration program. All of the drill hole samples have been assayed by ALS Chemex. The ALS Chemex facility in Hermosillo does the sample preparation, and the assays are performed at the ALS Chemex's Vancouver laboratory.

In January 2010, we initiated an additional drill campaign at Saric that consisted of 13 core holes totaling approximately 1,100 meters. The drilling was completed on February 23, 2010 and targeted the existing mineralized structure to confirm the geologic interpretation and confirm the accuracy of previous reverse circulation drilling. The drill hole samples were assayed by ALS Chemex. Currently, we have been conducting additional soil geochemical sampling, radiometric sampling, compiling geological results, planning additional drilling, working on an updated environmental report and clarifying the surface ranch land ownership.

The lease agreement required an initial payment of \$45 upon execution of the lease. We are required to pay an additional \$250, consisting of ten payments of \$25 every four months beginning six months after execution of the lease agreement. The agreement also contains an option to acquire the mining concessions for a cash payment of \$1,500 at the end of the term (December 2011). If we elect not to exercise this option, we would have the ability to mine the concessions by paying a 1% net smelter return to the owners of the leased concessions, capped at \$3,000. Prior payments made under this lease agreement would be deductible from the \$3,000 cap.

We continue to investigate other exploration projects in northern Mexico and other locations.

Result of Operations

As discussed more fully in Note 1 to the accompanying condensed consolidated financial statements, the financial information as of the fiscal year ended July 31, 2009 and for the three and nine months ended April 30, 2009 has been recast so that the basis of presentation is consistent with that of the financial information as of April 30, 2010 and for the three and nine months ended April 30, 2010. This recast reflects a 1-for-4 reverse stock split of the Company's common stock that became effective on January 25, 2010.

Three months ended April 30, 2010 compared to three months ended April 30, 2009

Net income for the three months ended April 30, 2010 and 2009 was approximately \$2,779 and \$2,554, respectively, representing an increase of approximately \$225 or 9% over the prior period. Income before taxes was \$5,725 and \$4,669 for the three months ended April 30, 2010 and 2009, respectively, which represented an increase of 23%. Income before taxes increased primarily as a result of higher revenues from a higher gold price being realized on ounces sold during the current quarter as well as higher production results during the three months ended April 30, 2010, as compared to the same period a year ago.

As a result of management changes during the three months ended April 30, 2010, we incurred one-time severance related charges of approximately \$2,284 within general and administrative expense. If we exclude these one-time charges, net income for the three months ended April 30, 2010 would have been approximately \$5,063 representing an increase of approximately \$2,509 or 98% over the prior period.

Revenues & Costs Applicable to Sales

Gold sales for the three months ended April 30, 2010 totaled approximately \$17,525 as compared to \$12,395 in the prior period representing an increase of approximately \$5,130 or 41%. We sold 15,745 ounces at an average realizable price per ounce of approximately \$1,113 in the current period. We sold 13,347 ounces at an average realizable price per ounce of \$929 during the same period last year.

Costs applicable to sales were approximately \$6,601 and \$3,698, respectively, for the three months ended April 30, 2010 and 2009, an increase of approximately \$2,903 or 79%. Cash costs were \$403 per ounce of gold sold for the three months ended April 30, 2010 as compared to \$263 for the three months ended April 30, 2009. The primary reasons for this increase in cash cost per ounce sold in the current period is attributable to: 1) higher mining contractor costs of approximately \$983 primarily due to an increase in tonnage mined of 1,495,000 tonnes or 84%, higher diesel fuel consumption of \$453 due to an increase in tonnage mined and longer haul distance as the pit deepens, and higher explosive costs of \$341; 2) higher leaching and ADR plant costs of approximately \$562 mainly due to an increase in tonnage crushed of 338,000 and associated consumption of certain chemicals as well as a price increase in cost of lime (this increased consumption was mainly the result of increasing the solution flow to the leach pad as we increased the level of lifts or height of the leach pad as well as the surface area under leach with the additional leach pad); 3) higher crushing costs of approximately \$405 due to an increased tonnage crushed of 338,000 and associated consumption of crushing supplies and parts; and 4) higher heavy equipment maintenance of approximately \$136k due to an increase in wear parts and tires for our equipment during the current quarter. Total costs were \$455 per ounce of gold sold for the three months ended April 30, 2010 as compared to \$305 total cost in the prior period. The primary reason for this increase in total costs was attributed to the same reason as detailed above for the increase in cash costs per ounce sold.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$427 and \$298 for the three months ended April 30, 2010 and 2009, on silver ounces sold of 24,715 and 22,991, respectively.

Depreciation and Amortization

Depreciation and amortization expense during the three months ended April 30, 2010 and 2009 was approximately \$838 and \$563, respectively. The primary reason for the increase of approximately \$275, or 49%, in the current period was due to an increase in depreciation and amortization charges related to property, plant and equipment additions as well as the increase in amortization under the Units-of-Production method associated with corresponding increase in production.

General and Administration Expense

General and administrative expenses during the three months ended April 30, 2010 were approximately \$3,753, an increase of approximately \$2,392, or 176%, from the three months ended April 30, 2009. This increase resulted primarily from one-time severance related charges to executives and employees of approximately \$2,284 during the quarterly period ended April 30, 2010. If we exclude these one-time charges, general and administrative expenses increased \$108 or 8% which was primarily due to an increase in legal and professional fees associated with the acquisition of Nayarit Gold.

On March 11, 2010, we entered into an agreement with Gifford A. Dieterle, the Chief Executive Officer (“CEO”) of the Company and Chairman of the Board, pursuant to which Mr. Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010. Pursuant to the agreement, Mr. Dieterle is to receive lump sum payments totaling approximately \$376 in September 2010, and additional payments totaling approximately \$288 during 2011. In addition, Mr. Dieterle will receive \$100 in shares of our common stock in September 2010.

On April 29, 2010, we entered into a severance agreement and general release with John Brownlie, our President and Chief Operating Officer (“COO”), pursuant to which Mr. Brownlie’s employment agreement will terminate and he will resign as President and COO effective upon the earlier of the consummation of the Business combination between the Company and Nayarit Gold or July 1, 2010. Pursuant to the Severance Agreement, Mr. Brownlie will be entitled to severance payments in the aggregate amount of approximately \$1,388, payable over a six month period; along with an additional \$375 if the closing of the business combination occurs on or prior to the date which is 120 days from the date of the severance agreement. .

Exploration Expense

Exploration expense during the three months ended April 30, 2010 and 2009 was approximately \$320 and \$329, respectively, or a decrease of \$9, or 3%. The primary reason for the decrease can be attributed to the prior year containing exploration expense associated with a 10 hole, deep core drilling campaign at our El Chanate mine totaling 2,500 meters. Both periods presented include activity associated with on-going exploration, drilling and geochemical work being conducted on our leased and owned concessions located northwest of Saric, Sonora.

Other Income and Expense

Our loss on the change in fair value of derivative instruments during the three months ended April 30, 2010 and 2009, was approximately \$0 and \$1,391, respectively, and was reflected as Other Expense. The primary reason for the decrease can be attributed to the close out, on February 24, 2009, with Standard Bank, Plc., of the remaining 58,233 ounces of gold hedged under the original Gold Price Protection arrangements originally entered into in March 2006.

Interest expense was approximately \$326 for the three months ended April 30, 2010 compared to approximately \$351 for the same period a year earlier. This decrease was due to lower interest charges incurred during the current period, based on a lower average debt balance compared to the prior period. As of April 30, 2010 and 2009, there was \$5,300 and \$9,125, respectively, outstanding on our term note with Standard Bank. Interest expense also includes amortization of deferred financing costs resulting from the credit arrangements entered into with Standard Bank. This accounted for approximately \$247 and \$247 of amortization expense during the three months ended April 30, 2010 and 2009, respectively.

Nine months ended April 30, 2010 compared to nine months ended April 30, 2009

Net income for the nine months ended April 30, 2010 and 2009 was approximately \$8,663 and \$7,687, respectively, representing an increase of approximately \$976 or 13% over the prior period. Income before taxes was \$15,606 and \$12,511 for the nine months ended April 30, 2010 and 2009, respectively, which represented an increase of 25%. Income before taxes increased primarily as a result of higher revenues from a higher gold price being realized on ounces sold during the current quarter as well as slightly higher production results during the nine months ended April 30, 2010, as compared to the same period a year ago.

As a result of management changes during the nine months ended April 30, 2010, we incurred one-time severance related charges to executives and employees of approximately \$2,710 within general and administrative expense. If we exclude these one-time charges, net income for the nine months ended April 30, 2010 would have been approximately \$11,373 representing an increase of approximately \$3,686 or 48% over the prior period.

Revenues & Costs Applicable to Sales

Gold sales for the nine months ended April 30, 2010 totaled approximately \$42,480 as compared to \$32,939 in the prior period representing an increase of approximately \$9,541 or 29%. We sold 39,294 ounces at an average realizable price per ounce of approximately \$1,081 in the current period. We sold 38,047 ounces at an average realizable price per ounce of \$866 during the same period last year.

Costs applicable to sales were approximately \$15,336 and \$10,395, respectively, for the nine months ended April 30, 2010 and 2009, an increase of approximately \$4,941 or 48%. Cash costs were \$374 per ounce of gold sold for the nine months ended April 30, 2010 as compared to \$261 for the nine months ended April 30, 2009. The primary reasons for this increase in cash cost per ounce sold in the current period is attributable to: 1) higher mining contractor costs of approximately \$1,467 primarily due to an increase in tonnage mined of 1,896,000 tonnes or 32%, higher diesel fuel consumption of \$758 due to an increase in tonnage mined and longer haul distance as the pit deepens, and higher explosive costs of \$582; 2) higher leaching and ADR plant costs of approximately \$1,623 mainly due to an increase in consumption of certain chemicals (\$1,048) as well as consumption and price increase in cost of lime (\$366) in the processing of ore as well as an increase in both water (\$103) and electricity (\$94) usage (the increased consumption was mainly the result of increasing the solution flow to the leach pad as we increased the level of lifts or height of the leach pad as well as the surface area under leach with the additional leach pad); and 3) higher crushing costs of approximately \$762 due to an increased consumption of crushing supplies and parts. This resulted from the addition of the new crushers as well as the increased tonnage put through the circuit as compared to the prior period. Total costs were \$426 per ounce of gold sold for the nine months ended April 30, 2010 as compared to \$301 total cost in the prior period. The primary reason for this increase in total costs was attributed to the same reason as detailed above for the increase in cash costs per ounce sold.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$970 and \$809 for the nine months ended April 30, 2010 and 2009, on silver ounces sold of 56,875 and 68,325, respectively.

Depreciation and Amortization

Depreciation and amortization expense during the nine months ended April 30, 2010 and 2009 was approximately \$2,063 and \$1,535, respectively. The primary reason for the increase of approximately \$528, or 34%, in the current period was due to an increase in depreciation and amortization charges related to property, plant and equipment additions.

General and Administration Expense

General and administrative expenses during the nine months ended April 30, 2010 were approximately \$7,413, an increase of approximately \$3,613, or 95%, from the nine months ended April 30, 2009. This increase resulted primarily from one-time severance related charges to executives and employees of approximately \$2,710 during the quarterly period ended April 30, 2010. In addition, we experienced higher legal and professional fees associated with our proposed acquisition with Nayarit Gold of approximately \$458 as well as higher non-cash stock compensation expense of approximately \$276. If we exclude these one-time severance related charges, general and administrative expenses increased \$903 or 24%. See also discussion on General and Administration Expense contained within the "Three months ended April 30, 2010 compared to three months ended April 30, 2009" section for further detail related to these one-time severance related charges.

Exploration Expense

Exploration expense during the nine months ended April 30, 2010 and 2009 was approximately \$1,000 and \$1,224, respectively, or a decrease of \$224, or 18%. The primary reason for the decrease can be attributed to the prior year containing exploration expense associated with a 10 hole, deep core drilling campaign at our El Chanate mine totaling 2,500 meters. Both periods presented include activity associated with on-going exploration, drilling and geochemical work being conducted on our leased and owned concessions located northwest of Saric, Sonora.

Other Income and Expense

Our loss on the change in fair value of derivative instruments during the nine months ended April 30, 2010 and 2009, was approximately \$0 and \$1,969, respectively, and was reflected as Other Expense. The primary reason for the decrease can be attributed to the close out, on February 24, 2009, with Standard Bank, Plc., of the remaining 58,233 ounces of gold hedged under the original Gold Price Protection arrangements originally entered into in March 2006.

Interest expense was approximately \$1,046 for the nine months ended April 30, 2010 compared to approximately \$1,264 for the same period a year earlier. This decrease was due to lower interest charges incurred during the current period, based on a lower average debt balance compared to the prior period. As of April 30, 2010 and 2009, there was \$5,300 and \$9,125, respectively, outstanding on our term note with Standard Bank. Interest expense also includes amortization of deferred financing costs resulting from the credit arrangements entered into with Standard Bank. This accounted for approximately \$741 and \$734 of amortization expense during the nine months ended April 30, 2010 and 2009, respectively.

Changes in Foreign Exchange Rates

During the nine months ended April 30, 2010 and 2009, we recorded equity adjustments from foreign currency translations of approximately \$1,516 and \$3,120, respectively. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the U.S. dollar and are included as a component of other comprehensive income. The Mexican Peso and the U.S. dollar exchange rate as of April 30, 2010 was 12.2783. As of July 31, 2009, such exchange rate was 12.9933.

Summary of Quarterly Results
(000's except per share Data)

| | For the three months ended April 30, 2010 | For the three months ended April 30, 2009 | For the nine months ended April 30, 2010 | For the nine months ended April 30, 2009 |
|------------------------------|--|--|---|---|
| Revenues | 17,525 | 12,395 | 42,480 | 32,939 |
| Net Income | 2,779 | 2,554 | 8,663 | 7,687 |
| Basic net income per share | 0.06 | 0.05 | 0.18 | 0.16 |
| Diluted net income per share | 0.06 | 0.05 | 0.17 | 0.15 |
| Gold ounces sold | 15,745 | 13,347 | 39,294 | 38,047 |
| Average price received | \$ 1,113 | \$ 929 | \$ 1,081 | \$ 866 |
| Cash cost per ounce sold(1) | \$ 403 | \$ 263 | \$ 374 | \$ 261 |
| Total cost per ounce sold(1) | \$ 455 | \$ 305 | \$ 426 | \$ 301 |

(1) "Cash costs per ounce sold" is a Non-GAAP measure, which includes all direct mining costs, refining and transportation costs, by-product credits and royalties as reported in the Company's financial statements. It also excludes intercompany management fees. "Total cost per ounce sold" is a Non-GAAP measure which includes "cash costs per ounce sold" as well as depreciation and amortization as reported in the Company's financial statements.

The following table reconciles the Non-GAAP measure "Cash costs per ounce sold" to the GAAP measure of "Costs applicable to sales per ounce sold":

| Reconciliation from non-GAAP measure to US GAAP | For the three months ended April 30, 2010 | For the three months ended April 30, 2009 | For the nine months ended April 30, 2010 | For the nine months ended April 30, 2009 |
|--|--|--|---|---|
| Cash cost per ounce sold | \$ 403 | \$ 263 | \$ 374 | \$ 261 |
| Intercompany management fee | 11 | 11 | 13 | 13 |
| Other | 5 | 3 | 3 | (1) |
| Costs applicable to sales per ounce sold | \$ 419 | \$ 277 | \$ 390 | \$ 273 |

Summary of Results of Operations

| | For the three months ended April 30, 2010 | For the three months ended April 30, 2009 | For the nine months ended April 30, 2010 | For the nine months ended April 30, 2009 |
|-------------------------|--|--|---|---|
| Tonnes of ore mined | 1,204,414 | 866,604 | 3,437,951 | 2,771,284 |
| Tonnes of waste removed | 2,047,766 | 890,241 | 4,373,945 | 3,144,623 |
| Ratio of waste to ore | 1.70 | 1.03 | 1.27 | 1.13 |
| Tonnes of ore processed | 1,229,139 | 938,469 | 3,441,506 | 2,892,595 |
| Grade (grams/tonne) | 0.76 | 0.68 | 0.73 | 0.82 |
| Gold (ounces) | | | | |
| - Produced(1) | 16,506 | 13,460 | 40,459 | 38,994 |
| - Sold | 15,745 | 13,347 | 39,294 | 38,047 |

(1) Gold produced each year does not necessarily correspond to gold sold during the year, as there is a time delay in the actual sale of the gold.

Liquidity and Capital Resources

Operating activities

Cash provided by operating activities during the nine months ended April 30, 2010 and 2009 was \$9,744 and \$7,311, respectively. Cash provided by operating activities increased \$2,433 as compared to the nine months ended April 30, 2009, primarily due to higher net income resulting from an increase in the average gold price received for ounces sold, an increase in inventory balances during the current period of \$7,595, and an increase in accounts payable and accrued expenses of \$4,220 mainly due to the accruals associated with one-time severance related charges to executives and employees of approximately \$2,710 during the quarterly period ended April 30, 2010.

In addition, on January 25, 2010, we entered into a Collateral Agreement (the "Collateral Agreement") with Metal Recovery Solutions, LLC ("MRS"), a privately-held Nevada company, in which it was proposed that we would acquire twenty-five percent of all of the issued and outstanding equity of MRS for aggregate investment of \$2,000. The Collateral Agreement required us to promptly pay \$500 to MRS, with the intention to invest the remaining \$1,500 set forth in a letter of intent (the "LOI") entered into on January 25, 2010, the material terms of which were non-binding. Our obligation to invest the remaining \$1,500 was contingent upon the execution of a definitive Investment Agreement (the "Investment Agreement"). Because the Investment Agreement was not consummated, the Collateral Agreement provides that the \$500 payment to MRS would be repaid with interest (the "MRS Repayment"). Such repayment is secured by cash flows from MRS's Consulting / Services Agreement with a third-party gold mining company, the expected value of which is \$1,275 to MRS.

On March 25, 2010, we elected not to pursue the implementation of the MRS technology at its El Chanate mine. Accordingly, we demanded repayment of the amounts paid to MRS in accordance with the letter agreement between MRS and us. On May 12, 2010, the parties agreed to reduce the MRS Repayment to \$450 and we agreed to accept payment over a two year period in equal monthly installments, subject to the negotiation of a definitive settlement agreement. We recorded the current portion of \$219 within Other Current Assets with the remaining amount due of \$231 within Other Long-Term Assets. Interest shall accrue on the outstanding balance at 5% until the principal and any accrued interest is paid in full.

Investing Activities

Cash used in investing activities during the nine months ended April 30, 2010, amounted to approximately \$5,712, primarily for the acquisition of an additional tertiary crusher and screen plant, additional water rights, additional leach pad expansion, as well as new platform upgrades for three of our crushers. In August 2009, we initiated the construction of an additional leach pad area with capacity for eight million tonnes of ore. Permitting and site clearing was completed, the construction contractor completed the earthworks and the geomembrane liners were applied to the new leach pad area. We initiated leaching of ore on the new leach pad as of December 31, 2009. Golder Engineering of Tucson, Arizona oversaw construction activities and quality control and assurance for the project. The final actual construction cost of this additional leach pad area is anticipated to be less than \$3,000.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately \$7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the capacity will be 20.1 million tonnes. This capital expenditure is anticipated to be expended over the next sixteen months. Site clearing was initiated this month and construction is anticipated to commence in July 2010. The first panel is anticipated to be ready for stacking towards the end of the calendar year. We also upgraded the platform supports for three of our crushers in May 2010. We anticipate these upgrades to cost approximately \$750.

Cash used in investing activities during the nine months ended April 30, 2009, amounted to approximately \$4,770, primarily from the acquisition of an additional secondary crusher and tunnel conveyor, mobile equipment, conveyors and ADR plant equipment, including the carbon regeneration kiln.

Financing Activities

Cash used in financing activities during the nine months ended April 30, 2010 amounted to approximately \$2,793, primarily from the repayment of our term loan of \$2,700. We also received proceeds of approximately \$53 in the current period from the issuance of common stock upon the exercise of 125,000 options. In addition, we incurred \$150 in finance costs to amend our Amended and Restated Credit Agreement with Standard Bank (See “Term loan and Revolving Credit Facility” section below). Cash used in financing activities during the nine months ended April 30, 2009 amounted to approximately \$3,226, primarily from the repayment of the term loan of \$3,375.

Business Combination Agreement

On February 10, 2010, Capital Gold Corporation (the “Company”) entered into a business combination agreement (the “Business Combination Agreement”) with Nayarit Gold Inc., (“Nayarit”), a corporation organized under the Ontario Business Corporation Act (“OBCA”). Pursuant to the terms of the Business Combination Agreement, the Company and Nayarit intend to effect an amalgamation (the “Amalgamation”) of Nayarit and a corporation, to be organized under the OBCA as a wholly-owned subsidiary of the Company (“Merger Sub”), to form a combined entity (“AmalgSub” or “Surviving Company”), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub shall thereupon cease, and AmalgSub, as the surviving company in the Amalgamation, shall continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Business Combination Agreement, by virtue of the Amalgamation and without any action on the part of Nayarit or the holders of any securities of Nayarit, all of the Nayarit shares of common stock (the “Nayarit Common Shares”) issued and outstanding immediately prior to the consummation of the Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) shall become exchangeable into the Company’s common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share (the “Amalgamation Consideration”). The

Company anticipates closing this transaction in July 2010, subject to stockholder approval.

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Term loan and Revolving Credit Facility

In September 2008, we closed an Amended And Restated Credit Agreement (the "Credit Agreement") involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), us, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006. Under the Credit Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to \$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. We guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of April 30, 2010, the outstanding amount on the term note was \$5,300 and accrued interest on this agreement was approximately \$12.

Term Loan principal shall be repaid quarterly and commenced on September 30, 2008 and consisted of four payments in the amount of \$1,125, followed by eight payments in the amount of \$900 and two final payments in the amount of \$400. There is no prepayment fee. Principal under the Term Loan shall bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. An Interest Period can be one, two, three or six months, at the option of the Borrowers. The Applicable Margin for the Term Loan is 2.5% per annum. Pursuant to the terms of the Credit Agreement, operating accounts remain subject to an account pledge agreement between MSR and Standard Bank.

The Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro. As additional collateral for the Loan, the Company, together with its subsidiary, Leadville Mining & Milling Holding Corporation, pledged all of its ownership interest in MSR and Oro.

On September 17, 2009, our \$5,000 revolving loan contained within the Credit Agreement expired. The Company had not drawn on this facility during the term period.

In December 2009, the Company executed a mandate letter from Standard Bank which set forth terms and conditions for amending the Credit Agreement to add a revolving loan of \$15,000 to the existing Term Loan. The revolving loan would have a term of one year and shall bear interest at a rate per annum equal to the LIBOR Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. The Applicable Margin for the revolving loan is 3.0% per annum. There were no significant changes to the existing Term Loan. The revolving loan is subject to credit and regulatory approval as well as legal, regulatory, technical and financial due diligence. We incurred an arrangement fee of \$150 in connection with the mandate letter which will be amortized over the term of the revolving loan as, deferred financing costs, upon closing.

Debt Covenants

Our Credit Agreement with Standard Bank requires us, among other obligations, to meet certain financial covenants including (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least \$15,000, and (iii) a quarterly average minimum liquidity of \$500. In addition, the Credit Agreement restricts, among other things, our ability to incur additional debt, create liens on our property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness.

As of April 30, 2010, we and our related entities were in compliance with all debt covenants and default provisions.

Environmental and Permitting Issues

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. The Company complies with all laws, rules and regulations concerning mining, environmental, health, zoning and historical preservation issues and we are not aware of any environmental issues at the El Chanate concessions. We have received the required Mexican government permits for operations. Any revisions to our mine plan may require us to amend the permits.

We received the annual extension to the explosive use permit from the relevant authorities. The permit is valid through December 2010.

We include environmental and reclamation costs on an ongoing basis, in our revenue and cost projections. No assurance can be given that environmental regulations will not be revised by the Mexican authorities in the future. As of April 30, 2010, we have estimated the reclamation costs for the El Chanate site to be approximately \$3,766. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation for the mine site. We reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of January 31, 2010 primarily due to the addition of the new leach pad in accordance with ASC guidance for asset retirement and environmental obligations. As of April 30, 2010, our reclamation and remediation liability was \$2,016.

Recently Issued Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements contained in Item 1. Financial Statements above.

Disclosure About Off-Balance Sheet Arrangements

We do not have any transactions, agreements or other contractual arrangements that constitute off-balance sheet arrangements.

Critical Accounting Policies

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. Critical accounting policies for us include inventory, revenue recognition, property, plant and mine development, impairment of long-lived assets, accounting for equity-based compensation, environmental remediation costs and accounting for derivative and hedging activities.

Ore on Leach Pads and Inventories (“In-Process Inventory”)

Costs that are incurred in or benefit the productive process are accumulated as ore on leach pads and inventories. Ore on leach pads and inventories are carried at the lower of average cost or market. The current portion of ore on leach pads and inventories is determined based on the amounts to be processed within the next 12 months. The major classifications are as follows:

Ore on Leach Pads

The recovery of gold from ore is achieved through the heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution, which dissolves the gold contained in the ore. The resulting “pregnant” solution is further processed in a processing plant that extracts gold from this solution producing gold doré. Costs are applied to ore on leach pads based on current mining costs, including applicable depreciation, depletion and amortization relating to the mining operation. Costs are removed from ore on leach pads as ounces are recovered based on the average cost per estimated recoverable ounce of gold on the leach pad.

The estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tonnes added to the leach pads), the grade of ore placed on the leach pads (based on fire assay data) and a recovery percentage (based on ore type and column testwork). It is estimated that the Company's leach pad at El Chanate will recover all ounces placed within a one year period from date of placement.

Although the quantities of recoverable gold placed on the leach pads are reconciled by comparing the grades of ore placed on pads to the quantities of gold actually recovered (metallurgical balancing), the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process needs to be constantly monitored and estimates need to be refined based on actual results over time. The Company's operating results may be impacted by variations between the estimated and actual recoverable quantities of gold on its leach pads.

In-process Inventory

In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the ore and the specific processing facility, but include leach in-circuit, flotation and column cells and carbon in-pulp inventories. In-process material are measured based on assays of the material fed into the process and the projected recoveries of the respective plants. In-process inventories are valued at the average cost of the material fed into the process attributable to the source material coming from the mines and/or leach pads plus the in-process conversion costs, including applicable depreciation relating to the process facilities incurred to that point in the process.

Materials and Supplies

Materials and supplies are valued at the lower of average cost or net realizable value. Cost includes applicable taxes and freight.

Mineral Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages. Our assessment of reserves occurs periodically and we utilize external firms to conduct such reserve estimates.

Reserves are a key component in valuation of our properties, plants and equipment. Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values to ensure that carrying values are reported appropriately. Reserves also play a key role in the valuation of certain assets in the determination of the purchase price allocations for our acquisitions. Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals.

Property, Plant and Mine Development

Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the straight-line method at rates sufficient to depreciate such costs over the estimated productive lives, which do not exceed the related estimated mine lives, of such facilities based on proven and probable reserves.

Mineral exploration costs are expensed as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs incurred prospectively to develop the property will be capitalized as incurred and are amortized using the units-of-production (“UOP”) method over the estimated life of the ore body based on estimated recoverable ounces or pounds in proven and probable reserves.

Impairment of Long-Lived Assets

We review and evaluate our long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets, including goodwill, if any. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on quantities of recoverable minerals, expected gold and other commodity prices (considering current and historical prices, price trends and related factors), production levels and operating costs of production and capital, all based on life-of-mine plans. Existing proven and probable reserves and value beyond proven and probable reserves, including mineralization other than proven and probable reserves and other material that is not part of the measured, indicated or inferred resource base, are included when determining the fair value of mine site reporting units at acquisition and, subsequently, in determining whether the assets are impaired. The term “recoverable minerals” refers to the estimated amount of gold or other commodities that will be obtained after taking into account losses during ore processing and treatment. Estimates of recoverable minerals from such exploration stage mineral interests are risk adjusted based on management’s relative confidence in such materials. In estimating future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of future cash flows from other asset groups. Our estimates of future cash flows are based on numerous assumptions and it is

possible that actual future cash flows will be significantly different than the estimates, as actual future quantities of recoverable minerals, gold and other commodity prices, production levels and operating costs of production and capital are each subject to significant risks and uncertainties.

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Reclamation and Remediation Costs (Asset Retirement Obligations)

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at our mine site in accordance with ASC guidance for asset retirement and environmental obligations.

Deferred Financing Costs

Deferred financing costs which were included in other assets and a component of stockholders' equity relate to costs incurred in connection with bank borrowings and are amortized over the term of the related borrowings.

Intangible Assets

Purchased intangible assets consisting of rights of way, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is our policy to assess periodically the carrying amount of our purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with ASC guidance for goodwill and other intangibles. There was no impairment at April 30, 2010.

Fair Value of Financial Instruments

The carrying value of our financial instruments, including cash and cash equivalents, loans receivable and accounts payable approximated fair value because of the short maturity of these instruments. The carrying value of long term debt approximates fair value due to the variable nature of the debt's interest rates.

Revenue Recognition

Revenue is recognized from the sale of gold doré when persuasive evidence of an arrangement exists, the price is determinable, the product has been shipped to the refinery, the title has been transferred to the customer and collection of the sales price is reasonably assured from the customer. The Company sells its precious metal content to a financial institution. Revenues are determined by selling the precious metal content at the spot price. Sales are calculated based upon assay of the doré's precious metal content and its weight. The Company sells approximately 95% of the precious metal content contained within the doré from the refinery based upon the preliminary assay of the Company. The residual ounces are sold upon obtaining the final assay and settlement for the shipment. The Company forwards an irrevocable transfer letter to the refinery to authorize the transfer of the precious metal content to the customer. The sale is recorded by the Company upon the refinery pledging the precious metal content to the customer. The Company waits until the doré precious metal content is pledged to the customer at the refinery to recognize the sale because collectability is not ensured until the doré precious metal content is pledged. The sale price is not subject to change subsequent to the initial revenue recognition date.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$970 and \$809 for the nine months ended April 30, 2010 and 2009, on silver ounces sold of 56,875 and 68,325, respectively.

Foreign Currency Translation

Assets and liabilities of the Company's Mexican subsidiaries are translated to US dollars using the current exchange rate for assets and liabilities. Amounts on the statement of operations are translated at the average exchange rates during the year. Gains or losses resulting from foreign currency translation are included as a component of other comprehensive income (loss).

Comprehensive Income (Loss)

Comprehensive income (loss) which is reported on the accompanying consolidated statement of stockholders' equity as a component of accumulated other comprehensive income (loss) consists of accumulated foreign translation gains and losses, the fair value change in our interest rate swap agreement and net unrealized gains and losses on available-for-sale securities.

Income Taxes

On October 1, 2007, the Mexican Government enacted legislation which introduces certain tax reforms as well as a new minimum flat tax system, which was effective for tax year 2008. This new flat tax system integrates with the regular income tax system and is based on cash-basis net income that includes only certain receipts and expenditures. The flat tax is set at 17.5% of cash-basis net income for tax year 2010, which increased from 17% for tax year 2009. If the flat tax is positive, it is reduced by the regular income tax and any excess is paid as a supplement to the regular income tax. For the tax year 2010, the Mexican Government introduced a reform where if the flat tax is negative, companies will not be permitted to reduce the income tax, as it may only serve to reduce the regular flat tax payable in that year or can be carried forward for a period of up to ten years to reduce any future flat tax.

On January 1, 2010, the Mexican government enacted legislation, which increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to 29% in 2013 and then back to 28% in 2014, according to legislation.

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. This legislation remains subject to ongoing varying interpretations. There is the possibility of implementation amendments by the Mexican government and the estimated future income tax liability recorded at the balance sheet date may change.

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. In accordance with ASC guidance for income taxes, the measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

Equity Based Compensation

In connection with offers of employment to our executives as well as in consideration for agreements with certain consultants, we issue options and warrants to acquire our common stock. Employee and non-employee awards are made in the discretion of the Board of Directors.

We account for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employees services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

Accounting for Derivatives and Hedging Activities

On October 11, 2006, prior to our initial draw on the Credit Agreement, we entered into interest rate swap agreements in accordance with the terms of the Credit Agreement, which requires that we hedge at least 50% of our outstanding debt under this agreement. The agreements entered into cover \$9,375 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375, but over different time horizons. The first covered the six months that commenced on October 11, 2006 and terminated on March 31, 2007 and the second covers the period from March 30, 2007 through December 31, 2010. We intend to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as we deem appropriate. However, any use of interest rate derivatives will be restricted to use for risk management purposes.

We used variable-rate debt to finance a portion of the El Chanate Project. Variable-rate debt obligations expose us to variability in interest payments due to changes in interest rates. As a result of these arrangements, we will continuously monitor changes in interest rate exposures and evaluate hedging opportunities. Our risk management policy permits us to use any combination of interest rate swaps, futures, options, caps and similar instruments, for the purpose of fixing interest rates on all or a portion of variable rate debt, establishing caps or maximum effective interest rates, or otherwise constraining interest expenses to minimize the variability of these effects.

The interest rate swap agreements are accounted for as cash flow hedges, whereby “effective” hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidentally with the earnings impact of the interest expenses being hedged. “Ineffective” hedge results are immediately recorded in earnings also under interest expense. No component of hedge results is excluded from the assessment of hedge effectiveness.

We are exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but we do not expect any of the counterparties to fail to meet their obligations. To manage credit risks, we select counterparties based on credit ratings, limit our exposure to a single counterparty under defined guidelines, and monitor the market position with each counterparty as required by ASC guidance for derivatives and hedging.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk. (in thousands, except for per share and ounce amounts)

Metal Price

Changes in the market price of gold significantly affect our profitability and cash flow. Gold prices can fluctuate widely due to numerous factors, such as demand; forward selling by producers; central bank sales, purchases and lending; investor sentiment; the relative strength of the U.S. dollar and global mine production levels.

Foreign Currency

Changes in the foreign currency exchange rates in relation to the U.S. dollar may affect our profitability and cash flow. Foreign currency exchange rates can fluctuate widely due to numerous factors, such as supply and demand for foreign and U.S. currencies and U.S. and foreign country economic conditions. Most of our assets and operations are in Mexico; therefore, we are more susceptible to fluctuations in the Mexican peso / U.S. dollar exchange. Our Mexico operations sell their metal production based on a U.S. dollar gold price as is the general, world-wide convention. Fluctuations in the local currency exchange rates in relation to the U.S. dollar can increase or decrease profit margins to the extent costs are paid in local currency at foreign operations. Foreign currency exchange rates in relation to the U.S. dollar have not had a material impact on our determination of proven and probable reserves. However, if a sustained weakening of the U.S. dollar in relation to the Mexican peso that impacts our cost structure was not mitigated by offsetting increases in the U.S. dollar gold price or by other factors, then profitability, cash flows and the amount of proven and probable reserves in the applicable foreign country could be reduced. The extent of any such reduction would be dependent on a variety of factors including the length of time of any such weakening of the U.S. dollar, and management's long-term view of the applicable exchange rate. We believe, however, that this exchange rate variability has not had a material impact on our financial statements.

Interest Rate Swap Contracts

On October 11, 2006, prior to our initial draw on the Credit Agreement, we entered into interest rate swap agreements in accordance with the terms of the Credit Agreement. Although the Credit Agreement requires that we hedge at least 50% of our outstanding debt under this agreement, we elected to cover \$9,375 or 75% of the outstanding debt. The termination date on our existing swap position is December 31, 2010. However, we intend to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as we deem appropriate. In any case, our use of interest rate derivatives will be restricted to use for risk management purposes.

Market Risk Disclosures

April 30, 2010

(in thousands)

Instruments entered into for hedging purposes -

| Type of Derivative | Notional Size | Fixed Price or Strike Price | Underlying Price | Termination or Expiration | Fair Value |
|---------------------|---------------|--------------------------------|------------------|------------------------------|------------|
| Interest Rate Swaps | \$ 2,625(1) | 5.30% | 3 Mo. USD LIBOR | 12/31/2010 | \$ (72) |

(1) The value shown reflects the notional as of April 30, 2010. Over the term of the swap, the notional amortizes, dropping to approximately \$1,313.

As of April 30, 2010, the dollar value of a basis point for this interest rate swap was approximately (\$86), suggesting that a one-basis point rise (fall) of the yield curve would likely foster an increase (decrease) in the interest rate swaps value by approximately \$86. Because hedge accounting is applied, the contract serves to lock in a fixed rate of interest for the portion of the variable rate debt equal to the swap's notional size. The swap covers only 75% of our variable rate exposure.

Item 4. Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

No change in our internal control over financial reporting occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

The risks described below should not be considered to be comprehensive and all-inclusive. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any events occur that give rise to the following risks, our business, financial condition, cash flow or results of operations could be materially and adversely affected, and as a result, the trading price of our common stock could be materially and adversely impacted. These risk factors should be read in conjunction with other information set forth in this report, including our Consolidated Financial Statements and the related Notes.

Risks related to our business and operations

Gold prices can fluctuate on a material and frequent basis due to numerous factors beyond our control. Our ability to generate profits from operations could be materially and adversely affected by such fluctuating prices.

The profitability of any gold mining operations in which we have an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. During the twelve months ended April 30, 2010, the spot price for gold on the London Exchange has fluctuated between \$884.50 and \$1,212.50 per ounce. Gold prices are affected by numerous factors beyond our control, including:

- Industrial and commercial demand for gold,
- the level of interest rates,
- the rate of inflation,
- central bank sales,
- world supply of gold and
- stability of exchange rates.

Each of these factors can cause significant fluctuations in gold prices. Such external factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The current significant instability in the financial markets heightens these fluctuations. The price of gold has historically fluctuated widely and, depending on the price of gold, revenues from mining operations may not be sufficient to offset the costs of such operations.

We face inherent risks in acquisitions of other mining companies or properties that may adversely impact our growth strategy.

Mines have limited lives, which is an inherent risk in acquiring mining properties. We are actively seeking to expand our mineral reserves by acquiring other mining companies or properties. Although we are pursuing opportunities that we feel are in the best interest of our investors, these pursuits are costly and often unproductive. Inherent risks in acquisitions we may undertake in the future could adversely affect our current business and financial condition and our growth.

There is a limited supply of desirable mineral lands available in the United States and foreign countries where we would consider conducting exploration and/or production activities, and any acquisition we may undertake is subject to inherent risks. In addition to the risk associated with limited mine lives, we may not realize the value of the companies or properties that are acquired due to a possible decline in metals prices, failure to obtain permits, labor problems, changes in regulatory environment, failure to achieve anticipated synergies, an inability to obtain financing and other factors previously described. Acquisitions of other mining companies or properties may also expose us to new geographic, political, operating, and geological risks. In addition, we face strong competition for companies and properties from other mining companies, some of which have greater financial resources than we do, and we may be unable to acquire attractive companies and mining properties on terms that we consider acceptable.

Completion of the Business Combination is subject to a number of conditions.

On February 10, 2010, we executed a business combination agreement with Nayarit Gold Inc., (“Nayarit”). The obligations of the parties to consummate the Business Combination are subject to the satisfaction or waiver of specified conditions set forth in the Business Combination Agreement. Such conditions include satisfaction by all parties of covenants and obligations contained in the Business Combination Agreement, the accuracy in all material respects on the date of the Business Combination Agreement and the closing date of all of the parties’ representations and warranties, obtaining material consents, approval of the regulatory authorities, and stockholder approval, as set forth in the Business Combination Agreement. It is possible some or all of these conditions will not be satisfied or waived by parties to the Business Combination Agreement, and therefore, the Business Combination may not be consummated.

Failure to complete the business combination could negatively impact the stock prices and the future business and financial results of Capital Gold.

If the business combination is not completed, the ongoing businesses of Capital Gold may be adversely affected. Additionally, if the business combination is not completed, Capital Gold may be required to pay a termination fee under the business combination agreement of \$1,000,000, and will have to pay certain costs relating to the business combination, such as legal, accounting, financial advisor, filing, printing and mailing fees. Any of the foregoing, or other risks arising in connection with the failure of the Business Combination, including the diversion of management attention from pursuing other opportunities during the pendency of the Business Combination, may have an adverse effect on the business, financial results and stock prices of Capital Gold.

Whether or not the Business Combination is completed, the announcement and pendency of the Business Combination could cause disruptions in the businesses of Capital Gold, which could have an adverse effect on their respective businesses, financial results and stock prices.

Whether or not the merger is completed, the announcement and pendency of the business combination could cause disruptions in the businesses of Capital Gold. Specifically, managements’ attention has been focused on the merger, which may have diverted managements’ attention from the core business of the respective companies and other opportunities that could have been beneficial to the respective companies. In addition, current and prospective employees of Capital Gold may experience uncertainty about their future roles with Capital Gold following the business combination, which may materially and adversely affect the ability of each of Capital Gold and Nayarit to attract and retain key personnel. These disruptions could be exacerbated by a delay in the completion of the business combination or termination of the Business Combination Agreement and could have an adverse effect on the business, financial results or stock prices of Capital Gold if the business combination is not completed.

Risks related to ownership of our stock

The NYSE AMEX may delist the Company's securities from quotation on its exchange which could limit investors' ability to make transactions in the Company securities and subject it to additional trading restrictions.

The Company's securities are listed on the NYSE AMEX, a national securities exchange. Although the Company expects to continue to meet the minimum continued listing standards, we cannot assure you that its securities will continue to be listed on the NYSE AMEX in the future.

If the NYSE Amex delists the Company's securities from trading on its exchange, the Company could face significant material adverse consequences, including:

- a limited availability for market quotations for the Company's securities;
- reduced liquidity with respect to the Company's securities;
- a determination that the Common Stock are a "penny stock," which will require brokers trading in the Common Stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for the Ordinary Shares;
- limited amount of news and analyst coverage for the Company's securities; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

In addition, the Company would no longer be subject to NYSE AMEX rules, including rules requiring the Company to have a certain number of independent directors and to meet other corporate governance standards.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.

32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL GOLD CORPORATION

Date: June 9, 2010

By: /s/ John Brownlie
John Brownlie
President and Chief Operating Officer
(Principal Executive Officer)

Date: June 9, 2010

By: /s/ Christopher M. Chipman
Christopher M. Chipman
Chief Financial Officer
(Principal Financial Officer)
