

# **FORM 10QSB**

**CAPITAL GOLD CORP - CGLD**

**Filed: December 17, 2007 (period: October 31, 2007)**

Quarterly report filed by small businesses

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2007

OR

TRANSITION REPORT UNDER 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 small business issuer 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, 14<sup>th</sup> floor, New York, NY 10005

(Address of principal executive offices)

Issuer's telephone number: (212) 344-2785

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 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.

<u>Class</u>	<u>Outstanding at December 7, 2007</u>
Common Stock, par value \$.0001 per share	<u>174,493,648</u>

Transitional Small Business Format (check one);

Yes  No

## **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 months ended October 31, 2007.

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, 2007.

The results reflected for the three months ended October 31, 2007 are not necessarily indicative of the results for the entire fiscal year.

CAPITAL GOLD CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET  
OCTOBER 31, 2007  
(UNAUDITED)

ASSETS

<b>Current Assets:</b>	
Cash and Cash Equivalents	\$ 3,915,916
Accounts Receivable	1,019,003
Stockpiles and Ore on Leach Pads (Note 4)	4,857,743
Material and Supply Inventories	375,409
Deposits (Note 5)	571,524
Marketable Securities (Note 3)	100,000
Prepaid Expenses	65,719
Loans Receivable - Affiliate (Note 10 and 13)	38,495
Other Current Assets (Note 6)	2,145,263
Total Current Assets	13,089,072
Mining Concessions (Note 9)	65,542
Property & Equipment - net (Note 7)	18,186,470
Intangible Assets - net (Note 8)	494,152
<b>Other Assets:</b>	
Other Investments	28,052
Deferred Financing Costs (Note 15)	542,084
Mining Reclamation Bonds	35,550
Security Deposits	60,981
Total Other Assets	666,667
Total Assets	\$ 32,501,903

LIABILITIES AND STOCKHOLDERS' EQUITY

<b>Current Liabilities:</b>	
Accounts Payable	\$ 914,682
Accrued Expenses	925,556
Derivative Contracts (Note 16)	726,881
Current Portion of Long-term Debt (Note 15)	2,040,000
Total Current Liabilities	4,607,119
Reclamation and Remediation Liabilities (Note 11)	1,310,084
Long-term Debt (Note 15)	10,460,000
Total Long-term Liabilities	11,770,084
Commitments and Contingencies	
<b>Stockholders' Equity:</b>	
Common Stock, Par Value \$.0001 Per Share; Authorized 250,000,000 shares; Issued and Outstanding 174,243,648 shares	17,424
Additional Paid-In Capital	56,149,878
Accumulated Deficit	(37,113,533)

Deferred Financing Costs (Note 15)	(3,205,406)
Deferred Compensation	(52,500)
Accumulated Other Comprehensive Income (Note 12)	<u>328,837</u>
Total Stockholders' Equity	<u>16,124,700</u>
Total Liabilities and Stockholders' Equity	<u>\$ 32,501,903</u>

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

CAPITAL GOLD CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

	The Three Months Ended October 31,	
	2007	2006
<b>Revenues</b>		
Sales - Gold, net	\$ 6,526,030	\$ -
<b>Costs and Expenses:</b>		
Costs Applicable to Sales	2,204,434	-
Depreciation and Amortization	949,014	73,445
General and Administrative	794,362	632,237
Exploration	135,404	212,227
Equity Based Compensation	58,210	-
<b>Total Costs and Expenses</b>	<b>4,141,424</b>	<b>917,909</b>
<b>Income (Loss) from Operations</b>	<b>2,384,606</b>	<b>(917,909)</b>
<b>Other Income (Expense):</b>		
Interest Income	19,726	21,578
Interest Expense	(280,865)	(22,581)
Other Income (Expense)	(18,413)	-
Loss on change in fair value of derivative	(357,946)	(241,857)
<b>Total Other Income (Expense)</b>	<b>(637,498)</b>	<b>(242,860)</b>
<b>Net Income (Loss)</b>	<b>\$ 1,747,108</b>	<b>\$ (1,160,769)</b>
<b>Income (Loss) Per Common Share</b>		
Basic	\$ 0.01	\$ (0.01)
Diluted	\$ 0.01	\$ (0.01)
<b>Basic Weighted Average Common Shares Outstanding</b>	<b>170,854,825</b>	<b>132,597,627</b>
<b>Diluted Weighted Average Common Shares Outstanding</b>	<b>192,997,981</b>	<b>174,274,733</b>

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

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

	Common Stock		Additional	Accumulated	Accumulated	Deferred	Deferred	Total
	Shares	Amount	paid-in- capital	Deficit	Other Comprehensive Income/(Loss)	Financing Costs	Compensation	Stockholders' Equity
Balance at July 31, 2007	168,173,148	\$ 16,817	\$ 54,016,375	\$ (38,860,641)	\$ 304,143	\$ (3,438,058)	\$ (52,500)	11,986,136
Amortization of Deferred Finance Costs	-	-	-	-	-	232,652	-	232,652
Equity Based Compensation	-	-	58,210	-	-	-	-	58,210
Common Stock issued upon the exercising of options and warrants	6,070,500	607	2,075,293	-	-	-	-	2,075,900
Change in fair value on interest rate swaps	-	-	-	-	(65,575)	-	-	(65,575)
Unrealized loss on marketable securities	-	-	-	-	10,000	-	-	10,000
Equity adjustment from foreign currency translation	-	-	-	-	80,269	-	-	80,269
Net income for the three months ended October 31, 2007	-	-	-	1,747,108	-	-	-	1,747,108
Balance at October 31, 2007	174,243,648	\$ 17,424	\$ 56,149,878	\$ (37,113,533)	\$ 328,837	\$ (3,205,406)	\$ (52,500)	16,124,700

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

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

	For The Three Months Ended October 31,	
	2007	2006
<b>Cash Flow From Operating Activities:</b>		
Net Income (Loss)	\$ 1,747,108	\$ (1,160,769)
<b>Adjustments to Reconcile Net Loss to</b>		
<b>Net Cash Provided by (Used in) Operating Activities:</b>		
Depreciation and Amortization	949,014	73,445
Accretion of Reclamation Obligation	60,981	-
Loss on change in fair value of derivative, net	65,683	241,858
Value of Warrants Issued for Services	58,210	34,115
<b>Changes in Operating Assets and Liabilities:</b>		
(Increase) Decrease in Accounts Receivable	(1,019,003)	-
Decrease in Prepaid Expenses	6,497	4,507
Increase in Inventory	(1,910,142)	-
(Increase) Decrease in Other Current Assets	(470,027)	4,145,478
Decrease (Increase) in Other Deposits	307,170	(1,429,110)
(Increase) Decrease in Other Assets	(986)	768
Increase in Accounts Payable	297,466	30,962
Increase in Accrued Expenses	322,493	227,445
<b>Net Cash Provided By Operating Activities</b>	<b>414,464</b>	<b>2,168,699</b>
<b>Cash Flow From Investing Activities:</b>		
(Increase) in Other Investments	-	(6,572)
Purchase of Mining, Milling and Other Property and Equipment	(798,699)	(3,475,456)
Purchase of Intangibles	(90,000)	(500,000)
<b>Net Cash Used in Investing Activities</b>	<b>(888,699)</b>	<b>(3,982,028)</b>

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

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

	For The Three Months Ended October 31,	
	2007	2006
<b>Cash Flow From Financing Activities:</b>		
Advances to Affiliate	8,500	(2,250)
Proceeds from Borrowing on Credit Facility	-	1,250,000
Proceeds From Issuance of Common Stock	2,075,900	-
Deferred Finance Costs	-	(241,624)
	<u>2,084,400</u>	<u>1,006,126</u>
Effect of Exchange Rate Changes	80,269	2,533
Increase (Decrease) In Cash and Cash Equivalents	1,690,434	(804,670)
Cash and Cash Equivalents - Beginning	2,225,482	2,741,498
Cash and Cash Equivalents - Ending	<u>\$ 3,915,916</u>	<u>\$ 1,936,828</u>
<b>Supplemental Cash Flow Information:</b>		
Cash Paid For Interest	<u>\$ 878,505</u>	<u>\$ -</u>
Cash Paid For Income Taxes	<u>\$ 455</u>	<u>\$ 557</u>
<b>Non-Cash Financing Activities:</b>		
Issuance of common stock and warrants as payment of financing costs	<u>\$ -</u>	<u>\$ 3,665,199</u>
Change in Fair Value of Derivative Instrument	<u>\$ 65,575</u>	<u>\$ 91,682</u>

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

CAPITAL GOLD CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2007

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold", "the Company", "we" or "us") owns rights to property located in the State of Sonora, Mexico and the California Mining District, Lake County, Colorado. The Company is engaged in the production of gold and other minerals from its properties in Mexico as well as exploration for additional mineral properties. All of the Company's mining activities are being performed in Mexico.

On June 29, 2001, the Company exercised an option and purchased from AngloGold North America Inc. and AngloGold (Jerritt Canyon) Corp. 100% of the issued and outstanding stock of Minera Chanate, S.A. de C.V., a subsidiary of those two companies ("Minera Chanate"). Minera Chanate's assets consisted of certain exploitation and exploration concessions in the States of Sonora, Chihuahua and Guerrero, Mexico. These concessions are sometimes referred to as the El Chanate Concessions.

Pursuant to the terms of the agreement, on December 15, 2001, the Company made a \$50,000 payment to AngloGold. AngloGold is entitled to receive the remainder of the purchase price by way of an ongoing percentage of net smelter returns of between 2% and 4% plus 10% net profits interest (until the total net profits interest payment received by AngloGold equals \$1,000,000). AngloGold's right to a payment of a percentage of net smelter returns and the net profits interest will terminate at such point as they aggregate \$18,018,355. In accordance with the agreement, the foregoing payments are not to be construed as royalty payments. Should the Mexican government or other jurisdiction determine that such payments are royalties, the Company could be subject to and would be responsible for any withholding taxes assessed on such payments.

Under the terms of the agreement, the Company has granted AngloGold the right to designate one of its wholly-owned Mexican subsidiaries to receive a one time option to purchase 51% of Minera Chanate (or such entity that owns the Minera Chanate concessions at the time of option exercise). That Option is exercisable over a 180 day period commencing at such time as the Company notifies AngloGold that it has made a good faith determination that it has gold-bearing ore deposits on any one of the identified group of El Chanate Concessions, when aggregated with any ore that the Company has mined, produced and sold from such concessions, of in excess of 2,000,000 troy ounces of contained gold. The exercise price would equal twice the Company's project costs on the properties during the period commencing on December 15, 2000 and ending on the date of such notice.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. 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 Industriale"), a Mexican corporation 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 cost. This entity is considered a variable interest entity under accounting rules provided under FIN 46, "Consolidation of Variable Interest Entities". 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. These reclassifications had no impact on the Company's results of operations, stockholders' equity or cash flows

Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

#### NOTE 2 - 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 \$0.24 to \$0.45 per share of common stock with certain of these grants becoming exercisable immediately upon grant. Certain grants vested or are vesting for a period of five months to two years, respectively. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

Effective February 1, 2006, the Company adopted the provisions of SFAS No. 123R. Under FAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period. The Company adopted the provisions of FAS 123R using a modified prospective application. Under this method, compensation cost is recognized for all share-based payments granted, modified or settled after the date of adoption, as well as for any unvested awards that were granted prior to the date of adoption. Prior periods are not revised for comparative purposes. Because the Company previously adopted only the pro forma disclosure provisions of SFAS 123, it will recognize compensation cost relating to the unvested portion of awards granted prior to the date of adoption, using the same estimate of the grant-date fair value and the same attribution method used to determine the pro forma disclosures under SFAS 123, except that forfeitures rates will be estimated for all options, as required by FAS 123R.

The cumulative effect of applying the forfeiture rates is not material. FAS 123R requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows.

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, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the three months ended October 31, 2007 and 2006, were \$0.43 and \$0.31, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Three months ended October 31,	
	2007	2006
Expected volatility	47.60 - 49.85%	134%
Risk-free interest rate	4.31%	6.25%
Expected dividend yield	-	-
Expected life	2.0 years	4.5 years

Stock option and warrant activity for employees during the three months ended October 31, 2007 is as follows:

	Number of Options	Weighted Average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2006	5,570,454	\$ .16	1.17	\$ 702,250
Options granted	1,050,000	\$ .36		
Options exercised	(3,570,909)	\$ .08	-	-
Options expired	(549,545)	\$ .22	-	-
Warrants and options outstanding at July 31, 2007	<u>2,500,000</u>	<u>\$ .34</u>	<u>1.20</u>	<u>\$ 255,000</u>
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options expired	-	-	-	-
Warrants and options outstanding at October 31, 2007	<u>2,500,000</u>	<u>\$ .34</u>	<u>0.95</u>	<u>\$ 730,000</u>
Warrants and options exercisable at October 31, 2007	<u>2,350,000</u>	<u>\$ .34</u>	<u>0.89</u>	<u>\$ 683,500</u>

Unvested stock option and warrant balances for employees at October 31, 2007 are as follows:

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at August 1, 2007		-	-	\$ -
Options granted	<u>150,000</u>	<u>\$ .32</u>	<u>0.67</u>	<u>18,000</u>
Unvested Options outstanding at October 31, 2007	<u>150,000</u>	<u>\$ .32</u>	<u>0.67</u>	<u>\$ 18,000</u>

Stock option and warrant activity for non-employees during the three months ended October 31, 2007 is as follows:

	<u>Number of Options</u>	<u>Weighted Average exercise price</u>	<u>Weighted average remaining contracted term (years)</u>	<u>Aggregate Intrinsic value</u>
Outstanding at July 31, 2006	25,561,000	\$ .29	1.33	\$ 1,939,530
Options exercised	(18,633,000)	.29	-	-
Options expired	(1,375,000)	.31	-	-
Warrants and options outstanding at July 31, 2007	<u>22,535,542</u>	<u>\$ .33</u>	<u>1.48</u>	<u>\$ 2,577,734</u>
Options granted*	465,000	\$ .45	-	-
Options exercised	(6,070,500)	.34	-	-
Options expired	(680,000)	.30	-	-
Warrants and options outstanding at October 31, 2007	<u>16,250,042</u>	<u>\$ .33</u>	<u>1.47</u>	<u>\$ 4,971,897</u>
Warrants and options exercisable at October 31, 2007	<u>16,250,042</u>	<u>\$ .33</u>	<u>1.47</u>	<u>\$ 4,971,897</u>

\* Issuances under Equity Incentive Plan

The impact on the Company's results of operations of recording equity based compensation for the three months ended October 31, 2007, for employees and non-employees was approximately \$58,000 and reduced earnings per share by \$0.00 per basic and diluted share.

As of October 31, 2007, there was \$52,500 of unrecognized equity based compensation cost related to options granted to one executive which have not yet vested.

#### NOTE 3 - Marketable Securities

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

	<u>October 31, 2007</u>
Marketable equity securities, at cost	<u>\$ 50,000</u>
Marketable equity securities, at fair value (See Notes 10 & 13)	<u>\$ 100,000</u>

NOTE 4 - Stockpiles, Ore on Leach Pads and Inventories (“In-Process Inventory”)

October 31, 2007

Current:

Stockpiles & Ore on leach pads	\$	4,857,743
Total	\$	<u>4,857,743</u>

Costs that are incurred in or benefit the productive process are accumulated as stockpiles, ore on leach pads and inventories. Stockpiles, ore on leach pads and inventories are carried at the lower of average cost or net realizable value. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. Write-downs of stockpiles, ore on leach pads and inventories, resulting from net realizable value impairments, will be reported as a component of *Costs applicable to sales*. The current portion of stockpiles, ore on leach pads and inventories is determined based on the expected amounts to be processed within the next 12 months. Stockpiles, ore on leach pads and inventories not expected to be processed within the next 12 months will be classified as long-term.

NOTE 5 - Deposits

Deposits are classified as current assets and represent advance payments made on the Company’s mining contract and on mining equipment regarding the El Chanate Project in Sonora, Mexico. Deposits are summarized as follows:

October 31, 2007

Advance payments on mining contract	\$	439,900
Equipment deposits		100,283
Other		<u>31,341</u>
Total Deposits	\$	<u>571,524</u>

NOTE 6 - Other Current Assets

Other current assets consist of the following as of October 31, 2007:

Value added tax to be refunded	\$	1,914,334
Asset held for resale		166,232
Other		<u>64,697</u>
Total Other Current Assets	\$	<u>2,145,263</u>

## NOTE 7 - Property and Equipment

Property and Equipment consist of the following as of October 31, 2007:

Process equipment and facilities	\$	16,739,729
Asset retirement obligation		1,218,314
Mining equipment		970,697
Mineral properties		141,242
Construction in progress		205,214
Computer and office equipment		241,542
Improvements		15,797
Furniture		24,858
Total		19,557,393
Less: accumulated depreciation		(1,370,923)
Property and equipment, net	\$	18,186,470

Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the Units of Production (“UOP”) and 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 are capitalized as incurred and are amortized using the UOP method over the estimated life of the ore body based on estimated recoverable ounces or pounds in proven and probable reserves.

Depreciation expense for the three months ended October 31, 2007 and 2006 was \$615,082 and \$12,267, respectively.

## NOTE 8 - Intangible Assets

Intangible assets consist of the following as of October 31, 2007:

Repurchase of Net Profits Interest from FG	\$	500,000
Water Rights		134,070
Mobilization Payment to Mineral Contractor		70,000
Investment in Right of Way		18,000
Total		722,070
Accumulated Amortization		(227,918)
Intangible assets, net	\$	494,152

Purchased intangible assets consisting of rights of way, water rights, easements and net profit interests 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 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 SFAS 144. There was no impairment at October 31, 2007.

Amortization expense for the three months ended October 31, 2007 and 2006 was \$211,666 and \$900, respectively.

## NOTE 9 - Mining Concessions

Mining concessions consists of the following as of October 31, 2007:

El Chanate	\$	44,780
El Charro		25,324
Total		70,104
Less: accumulated amortization		(4,562)
Total	\$	65,542

The El Chanate concessions are carried at historical cost and are being amortized using the UOP method. They were acquired in connection with the purchase of the stock of Minera Chanate (see Note 1).

MSR acquired an additional mining concession - El Charro. El Charro lies within the current El Chanate property boundaries. MSR is required to pay 1 1/2% net smelter royalty in connection with the El Charro concession.

Amortization expense for the year ended July 31, 2007 and 2006 was \$2,663 and \$0, respectively.

## NOTE 10 - Loans Receivable - Affiliate

Loans receivable - affiliate consist of expense reimbursements due from a publicly-owned corporation in which the Company has an investment. The Company's president and chairman of the board of directors is an officer and director of that corporation. These loans are non-interest bearing and due on demand (see Note 3 & 13).

## NOTE 11 - Reclamations and Remediation Liabilities ("Asset Retirement Obligations")

In accordance with SFAS No. 143, Accounting for 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 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 following is a reconciliation of the liability for long-term Asset Retirement Obligation:

Balance at July 31, 2007	\$	1,249,103
Additions, changes in estimates and other		-
Liabilities settled		-
Accretion expense		60,981
Balance at October 31, 2007	\$	1,310,084

## NOTE 12 - Other Comprehensive Income (Loss)-Supplemental Non-Cash Investing Activities

Other comprehensive income (loss) consists of accumulated foreign translation gains and losses and unrealized gains and losses on marketable securities and is summarized as follows:

Balance at July 31, 2007	\$	304,143
Equity Adjustments from Foreign Currency Translation		80,269
Change in fair value of derivative instrument		(65,575)
Unrealized Gains (loss) on Marketable Securities		10,000
Balance - October 31, 2007	\$	<u>328,837</u>

## NOTE 13 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately \$2,250 in expense reimbursements including office rent from this entity for the three months ended October 31, 2007 and 2006, respectively (see Notes 3 and 10).

The Company utilizes a Mexican Corporation 100% owned by two officers/Directors and stockholders of the Company for mining support services. These services include but are not limited to the payment of mining salaries and related costs. The Mexican Corporation bills the Company for these services at cost. Mining expenses charged by the Mexican Corporation and eliminated upon consolidation amounted to approximately \$609,000 and \$113,000 for the three months ended October 31, 2007 and 2006, respectively.

## NOTE 14 - Stockholders' Equity

### Common Stock

At various stages in the Company's development, shares of the Company's common stock have been issued at fair market value in exchange for services or property received with a corresponding charge to operations, property and equipment or additional paid-in capital depending on the nature of the services provided or property received.

During the three months ended October 31, 2007, the Company received proceeds of \$2,075,900 from the exercising of an aggregate of 6,070,500 warrants issued in past private placements.

### 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 10,000,000 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. As of October 31, 2007, 2,015,000 options and shares have been granted under the Plan.

In August 2007, the Company issued two year options to purchase the Company's common stock at exercise prices ranging from \$0.38 to \$0.50 per share for professional services rendered. These options are for the purchase of 465,000 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately \$58,000 as equity based compensation expense.

#### NOTE 15 - Debt

Long term debt consists of the following:

	<u>October 31, 2007</u>
Total long-term debt	\$ 12,500,000
Less current portion	<u>2,040,000</u>
Long-term debt	<u>\$ 10,460,000</u>

The Company entered into a credit facility (the "Credit Facility") in 2006 involving its wholly-owned subsidiaries MSR and Oro, as borrowers, us, as guarantor, and Standard Bank plc ("Standard Bank"), as the lender and the offshore account holder. Under the Credit Facility, MSR and Oro borrowed money in an aggregate principal amount of US\$12,500,000 (the "Loan") for the purpose of constructing, developing and operating the Company's El Chanate Project (the "Mine"). The Company guaranteed the repayment of the loan and the performance of the obligations under the Credit Facility. The Loan is scheduled to be repaid in fourteen quarterly payments with the first principal payment due after certain Mine start-up production and performance criteria are satisfied, which the Company believes will occur in the first calendar quarter of 2008. The Loan bears interest at LIBOR plus 4.00%, with LIBOR interest periods of 1, 2, 3 or 6 months and with interest payable at the end of the applicable interest period. As of October 31, 2007, the outstanding amount on the credit facility was \$12,500,000 and accrued interest on this facility was approximately \$93,000.

The Credit Facility contains covenants customary for a project financing loan, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, disposing of any assets, merging with other companies and making any investments. The Company will be required to meet and maintain certain financial covenants, including (i) a debt service coverage ratio of not less than 1.2 to 1.0, (ii) a projected debt service coverage ratio of not less than 1.2 to 1.0, (iii) a loan life coverage ratio of at least 1.6 to 1.0, (iv) a project life coverage ratio of at least 2.0 to 1.0 and (v) a minimum reserve tail. The Company also is required to maintain a certain minimum level of unrestricted cash, and upon meeting certain Mine start-up production and performance criteria, MSR and Oro are required to maintain a specified amount of cash as a reserve for debt repayment. The Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro.

As part of the fee for entering into and closing the Credit Facility, the Company issued to Standard Bank 1,150,000 shares of its restricted common stock and a warrant for the purchase of 12,600,000 shares of its common stock at an exercise price of \$0.317 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. Previously, pursuant to the mandate and commitment letter for the facility, the Company issued to Standard Bank 1,000,000 shares of its restricted common stock and a warrant for the purchase of 1,000,000 shares of its common stock at an exercise price of \$0.32 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. The Company recorded the issuance of the 1,000,000 shares of common stock as deferred financing costs of approximately \$270,000 as a reduction of stockholders' equity on its balance sheet. The issuance of these shares was recorded at the fair market value of the Company's common stock at the commitment letter date or \$0.27 per share. In addition, the warrants were valued at approximately \$253,000 using the Black-Scholes option pricing model and were reflected as deferred financing costs as a reduction of stockholders' equity on the Company's balance sheet in 2006. The Company registered for public resale the 2,150,000 shares issued to Standard Bank and the 13,600,000 shares issuable upon exercise of warrants issued to Standard Bank.

#### NOTE 16 - Sales Contracts, Commodity and Financial Instruments

In March 2006, in conjunction with the Company's credit facility, the Company entered into two identically structured derivative contracts with Standard Bank (See Note 15). Each derivative consisted of a series of forward sales of gold and a purchase gold cap. The Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to a purchase gold cap on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. While the period of the derivative contracts has commenced, the Company does not anticipate any material adverse effect from the fact that it has not commenced to sell gold because the price of gold is substantially above \$535 per ounce. Under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), these contracts must be carried on the balance sheet at their fair value, with changes to the fair value of these contracts reflected as Other Income or Expense. These contracts were not designated as hedging derivatives; and therefore, special hedge accounting does not apply.

The first derivative was entered into on March 1, 2006 for a premium of \$550,000; and the second was entered into on March 30, 2006 for a premium of \$250,000. As of October 31, 2007, the carrying value of this derivative liability was approximately \$612,000. The change in fair value on these derivative contracts was approximately \$358,000 for the three months ended October 31, 2007. This reduction in fair value was recorded as an other expense on the Company's income statement.

Rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, the Company has opted for a net cash settlement between the call option purchase price of \$535 and the forward sale price of \$500, or \$35.00 per oz. The Company has paid Standard Bank approximately \$753,000 in 2007 on the settlement of 21,517 ounces with corresponding reductions in the Company's derivative liability (\$294,000 or 8,391 ounces of gold during the three months ended October 31, 2007). The remaining ounces to settle with regard to this agreement amounted to 100,410 as of October 31, 2007.

On October 11, 2006, prior to the Company's initial draw on the Credit Facility, the Company entered into interest rate swap agreements in accordance with the terms of the Credit Facility, which requires that the Company hedge at least 50 percent of the Company's outstanding debt under this facility. The agreements entered into cover \$9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375,000, but over different time horizons. The first covered the six months commencing October 11, 2006 and terminated on March 31, 2007 and the second covering the period from March 30, 2007 with a termination date of December 31, 2010. 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 the Company deems appropriate. However, any 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, 2008 from these two swaps was determined to be immaterial. As of October 31, 2007, the Company's derivative liability associated with these swap agreements amounted to approximately \$115,000.

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 monitor the market position with each counterparty as required by SFAS 133.

#### NOTE 17 - Employee and Consulting Agreements

On August 29, 2007, the Board increased the salaries of the Company's executive officers to be commensurate with industry standards. The new salaries are as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, \$250,000; John Brownlie, Chief Operating Officer, \$225,000; Christopher Chipman, Chief Financial Officer, \$175,000 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, \$195,000; Roger A. Newell, Vice President - Development, \$135,000; and J. Scott Hazlitt, Vice President - Mine Development, \$135,000. The salary increase for Mr. Brownlie and the consulting fee increase for Mr. Chipman are retroactive to May 1, 2007 and the salary increase for Mr. Pritchard is retroactive to August 1, 2007. The Board also increased directors' compensation to the Company's independent directors and to Robert Roningen by \$1,000 per month.

On September 10, 2007, Roger A. Newell resigned as our Vice President of Development.

## NOTE 18 - Income Taxes

The Company operates mainly in North America and accordingly will be subject to annual income taxes under the various income tax regimes in the countries in which it operates. Some of these tax regimes are defined by contractual agreements with the local government, and others are defined by the general corporate income tax laws of the country. The Company has historically filed, and continues to file, all required income tax returns and will pay the taxes reasonably determined to be due. The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time the Company is subject to a review of its historic income tax filings and in connection with such reviews, disputes can arise with the taxing authorities over the interpretation or application of certain rules to the Company's business conducted within the country involved. The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes" on January 1, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. The interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns.

No provision for income taxes was made by the Company during the three months ended October 31, 2007, as MSR has available net operating loss carryforwards to reduce current and future taxable income.

### Note 19 - Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and marketable securities. The Company maintains cash balances at financial institutions which exceed the Federal Deposit Insurance Corporation limit of \$100,000 at times during the year.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **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 and Section 21E of the Securities and Exchange Act of 1934. Certain, but not necessarily all, 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, production and recovery rates, 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 "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.

### **General**

Through wholly-owned subsidiaries, Capital Gold Corporation owns 100% of 16 mining concessions located in the Municipality of Altar, State of Sonora, Republic of Mexico totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles). 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. Our results of operations differ from preceding periods because we now are realizing revenue from operations.

In May 2007, we completed an expanded 72-hole reverse circulation drilling campaign to identify additional proven and probable gold reserves at the El Chanate Project. The 72 holes totaled approximately 8,300 meters, and were positioned to fill in gaps in the ore body and test the outer limits of the currently known ore zones. We turned the assay data over to Independent Mining Consultants, Inc. ("IMC") of Tucson, AZ to update our ore reserve and our mine plan. On August 30, 2007, IMC delivered to us an updated resource block model and an updated mine plan and mine production schedule (the "2007 Report"). The original feasibility study (the "2003 Study") on the El Chanate Project was prepared by M3 Engineering of Tucson in August 2003. M3 updated the 2003 Study in October 2005 (the "2005 Study"). An August 2006 technical report from SRK Consulting, Denver, Colorado (the "2006 Update") further updated the feasibility study.

According to the 2007 Report, our proven and probable reserve tonnage has increased by approximately 98 percent from 19.9 million to 39.5 million metric tonnes with a gold grade of 0.66 grams per tonne (43.5 million US short tons at 0.019 ounces per ton). The open pit stripping ratio is 0.6:1 (0.6 tonnes of waste to one tonne of ore). The updated pit design for the revised plan in the 2007 Report is based on a plant recovery of gold that varies by rock types, but is expected to average 66.8%. A gold price of US\$550 (three year average as of July 31, 2007 as determined by IMC) per ounce was used to re-estimate the reserves compared with a gold price of \$450 per ounce used in the previous estimate.

The following Summary is extracted from the 2007 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 832,280 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 555,960 ounces, or approximately 66.8% of the contained gold. The gold recovery rate is expected to average approximately 66.8% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 73% to 48%. Oxidized and sandstone ore types may have recoveries of about 73%; fault zone ore type recoveries may be about 64%; siltstone ore types recoveries may be about 48% and latite intrusive ore type recoveries may be about 50%.

#### El Chanate Project

#### **Production Summary**

	Metric	U.S.
<b>Materials</b>		
<b>Reserves</b>		
Proven	26.7 Million Tonnes @ 0.68 g/t*	29.4 Million Tons @ 0.0198 opt*
Probable	<u>12.8 Million Tonnes @ 0.61g/t*</u>	<u>14.1 Million Tons @ 0.0179 opt*</u>
Total Reserves	39.5 Million Tonnes @ 0.66 g/t*	43.5 Million Tons @ 0.0192 opt*
<b>Waste</b>		
Total	<u>24.1 Million Tonnes</u>	<u>26.6 Million Tons</u>
	63.6 Million Tonnes	70.1 Million tons
Contained Gold	25.89 Million grams	832,280 Oz
<b>Production</b>		
Ore Crushed**	2.6 Million Tonnes /Year	2.87 Million Tons/Year
	7,500 Mt/d	8,267 t/d
Operating Days/Year	365 Days per year	365 Days per year
Gold Plant Average Recovery	66.8 %	66.8 %
Average Annual Production**	1.35 Million grams	43,414 Oz
Total Gold Produced	17.29 Million grams	555,960 Oz

\* “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. The reserve estimates are based on a recovered gold cutoff grade of 0.17 to 0.21 grams per metric tonne, depending on the operating year, and as described below.

\*\* Based on mining rate of 7,500 metric tonnes per day of ore. It does not take into account the anticipated increase to 10,000 metric tonnes per day or more.

Through October 31, 2007, approximately 1.45 million tonnes of ore had been placed on the leach pad containing an estimated 40,100 ounces of gold. Of these ounces, approximately 26,800 are estimated to be recoverable. The recovery period is estimated to be approximately three months. Gold production for the three months ended October 31, 2007, totaled approximately 9,600 ounces of Gold.

Gold production at El Chanate is currently near the feasibility study rate of 4,000 ounces per month. We have started to ramp up daily tonnage levels from 7,500 tonnes per day (“tpd”) to 10,000 tpd. This should boost our gold production toward 5,000 ounces per month (60,000 ounces per year). Initially, we anticipate that the increased plant throughput will not require any capital since an additional ore crushing and stacking capacity was factored into the original design.

With the recent reserve increase, we are analyzing what steps are necessary to effectively increase production rates to 70,000 to 80,000 ounces per year by 2009 and improve gold recoveries by conducting further metallurgical test work at our laboratory facilities at the mine. We will continue our ongoing studies to possibly increase production levels to 100,000 ounces per year thereafter. To this end, we have engaged Golder Engineering and its Mexican associates to supply engineering services for leach pad expansion and to study the impact of the planned mining increase. Golder previously successfully completed the construction management of our existing leach pads. In addition, we are discussing options available with the crusher manufacturer, Excel Machinery, with regards to adding an additional secondary crusher into the crushing circuit, to enable the system to handle increased tonnage. We anticipate that another crusher should move daily tonnage up closer to 15,000 tpd. The estimated cost to achieve these increased production rates will be approximately \$7,000,000 over a two year period. Management intends to fund these expansion costs through revenues from gold sales, additional bank financing and/or the sale of our securities; however, we cannot assure that adequate additional funding, if needed, will be available to fund this expansion activity.

We are actively investigating other exploration projects in northern Mexico.

### **Results of Operations**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited interim financial statements and related notes included elsewhere in this report.

#### **Three months ended October 31, 2007 compared to Three months ended October 31, 2006**

Net income for the three months ended October 31, 2007 was approximately \$1,747,000 compared to a net loss, of approximately \$1,161,000 for the three months ended October 31, 2006. The principal reason for this transition was our realizing revenue from operations during the current quarter. Net income per common share was \$0.01 for the three months ended October 31, 2007, on both a basic and diluted basis. The net loss per share for the same period in 2006 was \$0.01 on both a basic and diluted basis.

#### **Revenues & Costs Applicable to Sales**

Gold sales in the current period totaled approximately \$6,526,000. We sold 9,194 ounces at an average realizable price per ounce of \$710 (the London Bullion Market Association average gold PM fix was \$711 for the current period). Costs applicable to sales were approximately \$2,204,000 for the current period. There were no metal sales in 2006. Our cash cost and total cost per ounce sold was \$239 and \$311, respectively, for the current period.

### Depreciation and Amortization

Depreciation and amortization expense during the three months ended October 31, 2007 and 2006 was approximately \$ 949,000 and \$73,000, respectively. The primary reason for the increase was due to depreciation and amortization charges related to the El Chanate development costs as well as deferred financing costs resulting from the Credit Facility entered into in August 2006 with Standard Bank Plc. This accounted for approximately \$272,000 and \$60,000 of the amortization expense during the three months ended October 31, 2007 and 2006, respectively.

### General and Administration Expense

General and administrative expenses during the three months ended October 31, 2007 were approximately \$794,000, an increase of approximately \$162,000 or 26% from the three months ended October 31, 2006. The increase in general and administrative expenses resulted primarily from higher salaries and wages, higher investor relations fees as well as an increase in insurance costs versus the same period a year earlier.

### Exploration Expense

Exploration expense during the three months ended October 31, 2007 and 2006 was approximately \$135,000 and \$212,000, respectively. The primary reason for the decrease in exploration expenses was our focus on achieving normal operating levels during the quarter. Notwithstanding the foregoing, we have initiated various other exploration projects in northern Mexico.

### Equity Based Compensation

Equity based compensation during the three months ended October 31, 2007 was approximately \$58,000 as compared to \$0 in costs for the same period a year earlier. This increase primarily resulted from the issuance of stock options for professional services provided during the 2007 quarter.

### Other Income and Expense

Our loss on the change in fair value of derivative instruments during the three months ended October 31, 2007 and 2006, was approximately \$358,000 and \$242,000, respectively, and was reflected as an other expense. This was primarily due to the change in fair value of our two identically structured derivative contracts with Standard Bank which correlates to fluctuations in the gold price during the 2007 quarter. These contracts were not designated as hedging derivatives; and therefore, special hedge accounting does not apply.

Interest expense was approximately \$281,000 for the three months ended October 31, 2007 compared to approximately \$23,000 for the same period in 2006. This increase was mainly due to higher interest charges incurred during the current period related to our fully outstanding credit facility with Standard Bank. As of October 31, 2007 and 2006, there was \$12,500,000 and \$1,250,000 outstanding, respectively, on this credit facility.

### Changes in Foreign Exchange Rates

During the three months ended October 31, 2007, we recorded equity adjustments from foreign currency translations of approximately \$80,000. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar and are included as a component of other comprehensive income.

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

	<u>For the three Months</u> <u>ended October 31, 2007</u>	<u>For the three Months</u> <u>ended October 31, 2006</u>
Revenues	6,526	-
Net Income (loss)	1,747	(1,161)
Basic net income (loss) per share	0.01	(0.01)
Diluted net income (loss) per share	0.01	(0.01)

**Liquidity and Capital Resources**

As of October 31, 2007, we had approximately \$3,916,000 in cash and cash equivalents and working capital of approximately \$8,482,000, an increase of \$2,149,000 as of July 31, 2007. Cash provided by operating activities during the three months ended October 31, 2007 was approximately \$415,000, which primarily represents cash flows resulting from our realization of revenue from operations during the current quarter. Cash used in investing activities during the three months ended October 31, 2007, amounted to approximately \$889,000, primarily from mine development activities related to our El Chanate Project. Cash provided by financing activities during the three months ended October 31, 2007 amounted to approximately \$2,084,000, primarily from the exercising of 6,070,500 warrants for gross proceeds of approximately \$2,076,000. We believe that our available funds in conjunction with anticipated revenues from gold sales will be adequate to cover operating activities at El Chanate for the life of mine.

In March 2006, we entered into a gold price protection arrangement with Standard Bank to protect us against future fluctuations in the price of gold. We agreed to a series of gold forward sales and call option purchases in anticipation of entering into the Credit Facility. Under the price protection agreement, we have agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. We will also purchase call options from Standard Bank on a quarterly basis during this same period covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. To date, rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, we have opted for a net cash settlement between the call option purchase price of \$535 and the forward sale price of \$500, or \$35.00 per oz. We have paid Standard Bank approximately \$753,000 in 2007 on the settlement of 21,517 ounces with corresponding reductions in our derivative liability (\$294,000 or 8,391 ounces of gold) during the three months ended October 31, 2007. The remaining ounces to settle with regard to this agreement amounted to 100,410 as of October 31, 2007.

On October 11, 2006, prior to our initial draw on the Credit Facility, we entered into interest rate swap agreements in accordance with the terms of the Credit Facility, which requires that we hedge at least 50 percent of our outstanding debt under this facility. The agreements entered into cover \$9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375,000, 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.

While we believe that our available funds in conjunction with anticipated revenues from gold sales will be adequate to cover operating activities at El Chanate and general and administrative expenses for the life of the mine, if we encounter unexpected problems we may need to raise additional capital. We also may need to raise additional capital for significant property acquisitions and/or exploration activities. To the extent that we need to obtain additional capital, management intends to raise such funds through the sale of our securities and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available. If we need additional capital and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities. Please see *“We just recently started to receive cash flow from operations and, historically, have relied on external funding sources. While we believe that we will continue to generate cash flow from operations and generate profits, if we encounter unexpected problems, we may need to raise additional capital. If additional capital is required and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.”* in *“Risk Factors”* below.

## **Environmental and Permitting Issues**

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. In Mexico, although we must continue to comply with laws, rules and regulations concerning mining, environmental, health, zoning and historical preservation issues, we are not aware of any significant environmental concerns or existing reclamation requirements at the El Chanate concessions. We received the required Mexican government permits for construction, mining and processing the El Chanate ores in January 2004. The permits were extended in June 2005. Pursuant to the extensions, once we file a notice that work has commenced, we have one year to prepare the site and construct the mine and seven years to mine and process ores from the site. We filed the notice on June 1, 2006. Once we revise our new mine plan based on the 2007 Report, we will work to extend the permits for mining and processing for the new life of mine. We received the explosive permit from the government in August 2006. This permit, as extended, expires on December 31, 2007 and is renewable annually.

We own properties in Leadville, Colorado for which we have previously recorded an impairment loss. Part of the Leadville Mining District has been declared a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and the Superfund Amendments and Reauthorization Act of 1986. Several mining companies and one individual were declared defendants in a possible lawsuit. We were not named a defendant or Principal Responsible Party. We did respond in full detail to a lengthy questionnaire prepared by the Environmental Protection Agency ("EPA") regarding our proposed procedures and past activities in November 1990. To our knowledge, the EPA has initiated no further comments or questions.

We do include in all our internal revenue and cost projections a certain amount for environmental and reclamation costs on an ongoing basis. This amount was determined at a fixed amount of \$0.13 per metric tonne of material to be mined on a continual, ongoing basis to provide primarily for reclaiming tailing disposal sites and other reclamation requirements. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect our planned operations. We estimated the reclamation costs for the El Chanate site to be approximately \$2,300,000. 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. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at each mine site.

## **New Accounting Pronouncements**

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") effective January 1, 2007. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". The cumulative effect of applying the provisions of this interpretation are required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. The adoption of this standard did not have an impact on the financial condition or the results of our operations.

On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions".

The fair value option established by Statement 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments.

Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. We do not anticipate this having a material impact on our financial statements.

## **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.

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

Costs that are incurred in or benefit the productive process are accumulated as stockpiles, ore on leach pads and inventories. Stockpiles, ore on leach pads and inventories are carried at the lower of average cost or net realizable value. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. Write-downs of stockpiles, ore on leach pads and inventories, resulting from net realizable value impairments, are reported as a component of *Costs applicable to sales*. The current portion of stockpiles, ore on leach pads and inventories is determined based on the expected amounts to be processed within the next 12 months. Stockpiles, ore on leach pads and inventories not expected to be processed within the next 12 months are classified as long-term. The major classifications are as follows:

### *Stockpiles*

Stockpiles represent ore that has been mined and is available for further processing. Stockpiles are measured by estimating the number of tons added and removed from the stockpile, the number of contained ounces or pounds (based on assay data) and the estimated metallurgical recovery rates (based on the expected processing method). Stockpile ore tonnages are verified by periodic surveys. Costs are allocated to stockpiles based on relative values of material stockpiled and processed using current mining costs incurred up to the point of stockpiling the ore, including applicable overhead, depreciation, depletion and amortization relating to mining operations, and removed at each stockpile’s average cost per recoverable unit.

### *Ore on Leach Pads*

The recovery of gold from certain gold oxide ores is achieved through the heap leaching process. Under this method, oxide 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 plant where the gold is recovered. Costs are added to ore on leach pads based on current mining costs, including applicable depreciation, depletion and amortization relating to mining operations. 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 tons added to the leach pads), the grade of ore placed on the leach pads (based on assay data) and a recovery percentage (based on ore type). In general, leach pads recover approximately 50% to 95% of the recoverable ounces in the first year of leaching, declining each year thereafter until the leaching process is complete.

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. Our operating results may be impacted by variations between the estimated and actual recoverable quantities of gold on its leach pads. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value will be accounted for on a prospective basis.

### *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 mill in-circuit, 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, stockpiles 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.

### *Precious Metals Inventory*

Precious metals inventories include gold doré and/or gold bullion. Precious metals that result from our mining and processing activities are valued at the average cost of the respective in-process inventories incurred prior to the refining process, plus applicable refining costs.

### *Materials and Supplies*

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

### 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 UOP and 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 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.

### 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 abandonment 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 FASB FAS No. 143, "Accounting for Asset Retirement 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 and net profit interests 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 UOP 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 SFAS 144. There was no impairment at October 31, 2007.

### Fair Value of Financial Instruments

The carrying value of our financial instruments, including cash and cash equivalents, accounts receivable, loans receivable and accounts payable approximated fair value because of the short maturity of these instruments.

### Revenue Recognition

Revenue is recognized, net of treatment and refining charges, from a sale when the price is determinable, the product has been delivered, the title has been transferred to the customer and collection of the sales price is reasonably assured.

## 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.

Effective February 1, 2006, we adopted the provisions of SFAS No. 123R. Under FAS 123R, share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the requisite service period. We adopted the provisions of FAS 123R using a modified prospective application. Under this method, compensation cost is recognized for all share-based payments granted, modified or settled after the date of adoption, as well as for any unvested awards that were granted prior to the date of adoption. Prior periods are not revised for comparative purposes. Because we previously adopted only the pro forma disclosure provisions of SFAS 123, we will recognize compensation cost relating to the unvested portion of awards granted prior to the date of adoption, using the same estimate of the grant-date fair value and the same attribution method used to determine the pro forma disclosures under SFAS 123, except that forfeitures rates will be estimated for all options, as required by FAS 123R.

## Accounting for Derivatives and Hedging Activities

We entered into two identically structured derivative contracts with Standard Bank in March 2006. Each derivative consisted of a series of forward sales of gold and a purchase gold cap. We agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. We also agreed to a purchase gold cap on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. Although these contracts are not designated as hedging derivatives, they serve an economic purpose of protecting us from the effects of a decline in gold prices. Because they are not designated as hedges, however, special hedge accounting does not apply. Derivative results are simply marked to market through earnings, with these effects recorded in *other income* or *other expense*, as appropriate under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133").

On October 11, 2006, prior to our initial draw on the Credit Facility, we entered into interest rate swap agreements in accordance with the terms of the Credit Facility, which requires that we hedge at least 50 percent of our outstanding debt under this facility. The agreements entered into cover \$9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375,000, 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 use 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 will be 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.

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 SFAS 133.

### **Risk Factors**

We are subject to various risks that may materially harm our business, financial condition and results of operations. If any of these risks or uncertainties actually occur, our business, financial condition or operating results could be materially harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.

#### **Risks related to our business and operations**

***We have just begun generating operating revenues. If we are unable to sustain operating revenues, we will not be able to generate profits and our business may fail.***

Until recently, we had no producing properties and, historically, have operated at a loss. We only commenced gold producing activities and started to generate revenues in August 2007. Our ultimate success will depend on our ability to generate profits from our properties. Our viability is largely dependent on the successful commercial development of our El Chanate gold mining project in Sonora, Mexico. While we have commenced revenue producing mining operations, we cannot assure that revenues will continue to cover cash flow or continue to generate profits.

***We just recently started to receive cash flow from operations and, historically, have relied on external funding sources. While we believe that we will continue to generate cash flow from operations and generate profits, if we encounter unexpected problems, we may need to raise additional capital. If additional capital is required and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.***

Prior to the first fiscal quarter of 2008, we were not able to generate cash flow from operations. While we now are generating positive cash flow and profits, if we encounter unexpected problems and we are unable to continue to generate positive cash flow and profits, we may need to raise additional capital. We also may need to raise additional capital for property acquisition and new exploration. To the extent that we need to obtain additional capital, management intends to raise such funds through the sale of our securities and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available. If we need additional capital and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.

***Our Credit Facility with Standard Bank plc imposes restrictive covenants on us.***

Our Credit Facility with Standard Bank requires us, among other obligations, to meet certain financial covenants including (i) a debt service coverage ratio of not less than 1.2 to 1.0, (ii) a projected debt service coverage ratio of not less than 1.2 to 1.0, (iii) a loan life coverage ratio of at least 1.6 to 1.0, (iv) a project life coverage ratio of at least 2.0 to 1.0 and (v) a minimum reserve tail. We are also required to maintain a certain minimum level of unrestricted cash. In addition, the Credit Facility restricts, among other things, our ability to incur additional debt, create liens on our property, dispose of any assets, merge with other companies or make any investments. A failure to comply with the restrictions contained in the Credit Facility could lead to an event of default thereunder which could result in an acceleration of such indebtedness.

***We are using reconditioned equipment which could adversely affect our cost assumptions and our ability to economically and successfully mine the project.***

We are using reconditioned carbon column collection equipment to recover gold and Sinergia, our mining contractor, is using equipment that is not new. Such equipment is subject to the risk of more frequent breakdowns and need for repair than new equipment. If the equipment that we or Sinergia uses breaks down and needs to be repaired or replaced, we will incur additional costs and operations may be delayed resulting in lower amounts of gold recovered. In such event, our capital and operating cost assumptions may be inaccurate and our ability to economically and successfully mine the project may be hampered, resulting in decreased revenues and, possibly, a loss from operations.

***The gold deposit we have identified at El Chanate is relatively low-grade. If our estimates and assumptions are inaccurate, our results of operation and financial condition could be materially adversely affected.***

The gold deposit we have identified at our El Chanate Project is relatively low-grade. If the estimates of ore grade or recovery rates turn out to be lower than the actual ore grade and recovery rates, if costs are higher than expected, or if we experience problems related to the mining, processing, or recovery of gold from ore at the El Chanate Project, our results of operation and financial condition could be materially adversely affected. Moreover, it is possible that actual costs and economic returns may differ materially from our best estimates. It is not unusual in the mining industry for new mining operations to experience unexpected problems during the initial production phase and to require more capital than anticipated. There can be no assurance that our operations at El Chanate will continue to be profitable.

***We have only one project. As a result, our chances of conducting viable mining operations are dependent upon the success of that project.***

Our only current properties are the El Chanate concessions. Accordingly, we are dependent upon the success of the El Chanate concessions.

***Gold prices can fluctuate on a material and frequent basis due to numerous factors beyond our control. If and when we commence production, 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 first eleven months of 2007, the spot price for gold on the London Exchange has fluctuated between \$608.30 and \$841.75 per ounce. During calendar 2006, the spot price for gold on the London Exchange fluctuated between \$524.75 and \$725.00 per ounce. Gold prices are affected by numerous factors beyond our control, including:

- 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 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 may not be successful in hedging against gold price and interest rate fluctuations and may incur mark to market losses and lose money through our hedging programs.***

We have entered into metals trading transactions to hedge against fluctuations in gold prices, using call option purchases and forward sales, and have entered into various interest rate swap agreements. The terms of our Credit Facility with Standard Bank require that we utilize various price hedging techniques to hedge a portion of the gold we plan to produce at the El Chanate Project and hedge at least 50% of our outstanding loan balance. There can be no assurance that we will be able to successfully hedge against gold price and interest rate fluctuations.

Further, there can be no assurance that the use of hedging techniques will always be to our benefit. Hedging instruments that protect against metals market price volatility may prevent us from realizing the full benefit from subsequent increases in market prices with respect to covered production, which would cause us to record a mark-to-market loss, decreasing our revenues and profits. Hedging contracts also are subject to the risk that the other party may be unable or unwilling to perform its obligations under these contracts. Any significant nonperformance could have a material adverse effect on our financial condition, results of operations and cash flows.

To date, rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, we have opted for a net cash settlement between the call option purchase price of \$535 and the forward sale price of \$500, or \$35.00 per oz. We have paid Standard Bank approximately \$753,000 in 2007 on the settlement of 21,517 ounces with corresponding reductions in our derivative liability (\$294,000 or 8,391 ounces of gold during the three months ended October 31, 2007). The remaining ounces to settle with regard to this agreement amounted to 100,410 as of October 31, 2007. We believe we will be able to deliver the quantity of gold required by our forward sales on a going forward basis; however, we may continue to opt to net cash settle these forward sale obligations if it remains the most cost effective option for us. If we are unable for any reason to produce the quantity of gold required by our forward sales and generate sufficient cash flow to settle these forward sales in gold or cash, it could have a material adverse effect on our financial condition and cash flows.

***Our material property interests are in Mexico. Risks of doing business in a foreign country could adversely affect our results of operations and financial condition.***

We face risks normally associated with any conduct of business in a foreign country with respect to our El Chanate Project in Sonora, Mexico, including various levels of political and economic risk. The occurrence of one or more of these events could have a material adverse impact on our efforts or operations which, in turn, could have a material adverse impact on our cash flows, earnings, results of operations and financial condition. These risks include the following:

- labor disputes,
- invalidity of governmental orders,
- uncertain or unpredictable political, legal and economic environments,
- war and civil disturbances,
- changes in laws or policies,
- taxation,
- delays in obtaining or the inability to obtain necessary governmental permits,
- governmental seizure of land or mining claims,
- limitations on ownership,
- limitations on the repatriation of earnings,
- increased financial costs,
- import and export regulations, including restrictions on the export of gold, and
- foreign exchange controls.

These risks may limit or disrupt the project, restrict the movement of funds or impair contract rights or result in the taking of property by nationalization or expropriation without fair compensation.

***We sell gold in U.S. dollars; however, we incur a significant amount of our expenses in Mexican pesos. If applicable currency exchange rates fluctuate, our revenues and results of operations may be materially and adversely affected.***

We sell gold in U.S. dollars. We incur a significant amount of our expenses in Mexican pesos. As a result, our financial performance would be affected by fluctuations in the value of the Mexican peso to the U.S. dollar.

***Changes in regulatory policy could adversely affect our exploration and future production activities.***

Any changes in government policy may result in changes to laws affecting:

- ownership of assets,
- land tenure,
- mining policies,
- monetary policies,
- taxation,
- rates of exchange,
- environmental regulations,
- labor relations,
- repatriation of income and/or
- return of capital.

Any such changes may affect our ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as our ability to continue to explore, develop and operate those properties in which we have an interest or in respect of which we have obtained exploration and development rights to date. The possibility, particularly in Mexico, that future governments may adopt substantially different policies, which might extend to expropriation of assets, cannot be ruled out.

***Compliance with environmental regulations could adversely affect our exploration and future production activities.***

With respect to environmental regulation, future environmental legislation could require:

- stricter standards and enforcement,
- increased fines and penalties for non-compliance,
- more stringent environmental assessments of proposed projects and
- a heightened degree of responsibility for companies and their officers, directors and employees.

There can be no assurance that future changes to environmental legislation and related regulations, if any, will not adversely affect our operations. We could be held liable for environmental hazards that exist on the properties in which we hold interests, whether caused by previous or existing owners or operators of the properties. Any such liability could adversely affect our business and financial condition.

***We have insurance against losses or liabilities that could arise from our operations. If we incur material losses or liabilities in excess of our insurance coverage, our financial position could be materially and adversely affected.***

Mining operations involve a number of risks and hazards, including:

- environmental hazards,
- industrial accidents,
- metallurgical and other processing,
- acts of God, and/or
- mechanical equipment and facility performance problems.

Such risks could result in:

- damage to, or destruction of, mineral properties or production facilities,
- personal injury or death,
- environmental damage,
- delays in mining,
- monetary losses and /or
- possible legal liability.

Industrial accidents could have a material adverse effect on our future business and operations. We currently maintain general liability, auto and property insurance coverage. We cannot be certain that the insurance we have in place will cover all of the risks associated with mining or that we will be able to maintain insurance to cover these risks at economically feasible premiums. We also might become subject to liability for pollution or other hazards which we cannot insure against or which we may elect not to insure against because of premium costs or other reasons. Losses from such events may have a material adverse effect on our financial position.

***Calculation of reserves and metal recovery dedicated to future production is not exact, might not be accurate and might not accurately reflect the economic viability of our properties.***

Reserve estimates may not be accurate. There is a degree of uncertainty attributable to the calculation of reserves, resources and corresponding grades being dedicated to future production. Until reserves or resources are actually mined and processed, the quantity of reserves or resources and grades must be considered as estimates only. In addition, the quantity of reserves or resources may vary depending on metal prices. Any material change in the quantity of reserves, resource grade or stripping ratio may affect the economic viability of our properties. In addition, there can be no assurance that mineral recoveries in small scale laboratory tests will be duplicated in large tests under on-site conditions or during production.

***We are dependent on the efforts of certain key personnel and contractors to develop our El Chanate Project. If we lose the services of these personnel and contractors and we are unable to replace them, our planned operations at our El Chanate Project may be disrupted and/or materially adversely affected.***

We are dependent on a relatively small number of key personnel, including but not limited to John Brownlie, Chief Operating Officer, who oversees the El Chanate Project, the loss of any one of whom could have an adverse effect on us. We are also dependent upon Sinergia to provide mining services. Sinergia commenced mining operations on March 25, 2007, and transitioned from the pre-production to production phase of the mining contract in July 2007. Sinergia has mobilized its mining fleet to the site; however, its mining fleet is not new. If we lose the services of our key personnel, or if Sinergia is unable to effectively maintain its fleet, our planned operations at our El Chanate Project may be disrupted and/or materially adversely affected.

***There are uncertainties as to title matters in the mining industry. We believe that we have good title to our properties; however, any defects in such title that cause us to lose our rights in mineral properties could jeopardize our planned business operations.***

We have investigated our rights to explore, exploit and develop our concessions in manners consistent with industry practice and, to the best of our knowledge, those rights are in good standing. However, we cannot assure that the title to or our rights of ownership in the El Chanate concessions will not be challenged or impugned by third parties or governmental agencies. In addition, there can be no assurance that the concessions in which we have an interest are not subject to prior unregistered agreements, transfers or claims and title may be affected by undetected defects. Any such defects could have a material adverse effect on us.

***Our ability to remain profitable long-term eventually will depend on our ability to find, explore and develop additional properties. Our ability to acquire such additional properties will be hindered by competition. If we are unable to acquire, develop and economically mine additional properties, we most likely will not be able to be profitable on a long-term basis.***

Gold properties are wasting assets. They eventually become depleted or uneconomical to continue mining. The acquisition of gold properties and their exploration and development are subject to intense competition. Companies with greater financial resources, larger staffs, more experience and more equipment for exploration and development may be in a better position than us to compete for such mineral properties. If we are unable to find, develop and economically mine new properties, we most likely will not be able to be profitable on a long-term basis.

***Our ability on a going forward basis to discover additional viable and economic mineral reserves is subject to numerous factors, most of which are beyond our control and are not predictable. If we are unable to discover such reserves, we most likely will not be able to be profitable on a long-term basis.***

Exploration for gold is speculative in nature, involves many risks and is frequently unsuccessful. Few properties that are explored are ultimately developed into commercially producing mines. As noted above, our long-term profitability will be, in part, directly related to the cost and success of exploration programs. Any gold exploration program entails risks relating to

- the location of economic ore bodies,
- development of appropriate metallurgical processes,
- receipt of necessary governmental approvals and
- construction of mining and processing facilities at any site chosen for mining.

The commercial viability of a mineral deposit is dependent on a number of factors including:

- the price of gold,
- the particular attributes of the deposit, such as its
  - size,
  - grade and
  - proximity to infrastructure,
- financing costs,
- taxation,
- royalties,
- land tenure,
- land use,
- water use,
- power use,
- importing and exporting gold and
- environmental protection.

The effect of these factors cannot be accurately predicted.

### **Risks related to ownership of our stock**

***Our stock price may be adversely affected if a significant amount of shares are sold in the public market.***

As of December 7, 2007, approximately 82.1 million shares of our common stock, constituted "restricted securities" as defined in Rule 144 under the Securities Act of 1933. We have registered more than half of these shares for public resale. In addition, we have registered 15.4 million shares of common stock issuable upon the exercise of outstanding warrants and options that, as of the date hereof, have not expired or been exercised. All of the foregoing shares, assuming exercise of all of the above options and warrants, would represent in excess of 50% of the then outstanding shares of our common stock. Registration of the shares permits the sale of the shares in the open market or in privately negotiated transactions without compliance with the requirements of Rule 144. To the extent the exercise price of the warrants or options is less than the market price of the common stock, the holders of the warrants are likely to exercise them and sell the underlying shares of common stock and to the extent that the exercise prices of these securities are adjusted pursuant to anti-dilution protection, the securities could be exercisable or convertible for even more shares of common stock. We also may issue shares to be used to meet our capital requirements or use shares to compensate employees, consultants and/or directors. We are unable to estimate the amount, timing or nature of future sales of outstanding common stock. Sales of substantial amounts of our common stock in the public market could cause the market price for our common stock to decrease. Furthermore, a decline in the price of our common stock would likely impede our ability to raise capital through the issuance of additional shares of common stock or other equity securities.

*We do not intend to pay cash dividends in the near future.*

Our board of directors determines whether to pay cash dividends on our issued and outstanding shares. The declaration of dividends will depend upon our future earnings, our capital requirements, our financial condition and other relevant factors. Our board does not intend to declare any dividends on our shares for the foreseeable future. We anticipate that we will retain any earnings to finance the growth of our business and for general corporate purposes.

*Provisions of our Certificate of Incorporation, By-laws and Delaware law could defer a change of our management which could discourage or delay offers to acquire us.*

Provisions of our Certificate of Incorporation, By-laws and Delaware law may make it more difficult for someone to acquire control of us or for our stockholders to remove existing management, and might discourage a third party from offering to acquire us, even if a change in control or in management would be beneficial to our stockholders. For example, our Certificate of Incorporation allows us to issue different series of shares of common stock without any vote or further action by our stockholders and our Board of Directors has the authority to fix and determine the relative rights and preferences of such series of common stock. As a result, our Board of Directors could authorize the issuance of a series of common stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of other common stock and the right to the redemption of the shares, together with a premium, prior to the redemption of other series of our common stock.

**Item 3. 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. 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

We received proceeds of approximately \$2,075,900 during the quarter ended October 31, 2007 from the exercising of an aggregate of 6,070,500 warrants issued in past private placements. In addition, we issued 465,000 two year options to purchase our common stock at an exercise prices ranging from \$0.38 to \$0.50 per share for professional services rendered.

All of the foregoing securities were issued pursuant to exemptions from registration provided by Section 4(2) of the Securities Act of 1933.

### 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.

- 10.1 Second Amendment To Executive Employment Agreement of John Brownlie
- 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 Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

**CAPITAL GOLD CORPORATION**

Registrant

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle  
President/Treasurer

Date: December 17, 2007

**SECOND AMENDMENT TO EXECUTIVE  
EMPLOYMENT AGREEMENT**

WHEREAS, effective May 1, 2006, CAPITAL GOLD CORPORATION, a Delaware corporation (“Employer”), and JOHN BROWNLIE, a Colorado resident (“Executive”), entered into an Executive Employment Agreement (the “Agreement”);

WHEREAS, effective August 29, 2007, Section 3(a) of the Agreement was amended; and

WHEREAS, on November 13, 2007, the Company’s Board of Directors, including all members of the Board’s Compensation Committee, determined to amend the Agreement, inter alia, to reflect the Executive’s promotion to Chief Operating Officer on February 7, 2007, and to provide Executive with the same benefits and protections provided to the other executive officers of the Company in the event of a change in control of the Company;

NOW, THEREFORE, to effectuate the foregoing changes, Employer and Executive agree:

1. Section 1 of the Agreement is amended and, as amended, reads as follows:

“1. **Employment.** Upon and subject to the terms provided herein, Employer agrees to employ Executive, and Executive hereby agrees to be employed by Employer, as Employer’s Chief Operating Officer, or other substantially similar position. Executive shall report to the President and Chief Executive Officer or such other supervisor as designated by the President and Chief Executive Officer of Employer. Executive shall perform such tasks commensurate with this position as may from time to time be assigned by Employer. In this regard, unless and until Executive is notified otherwise by Employer, Executive’s duties shall include, among other things, serving as the President of Minera Santa Rita, S.A. de C.V., a subsidiary of Employer incorporated in Mexico. Executive shall devote all business time, labor, skill, undivided attention and best ability to the performance of Executive’s duties hereunder in a manner which will faithfully and diligently further the business and interests of Employer. During the term of employment, Executive shall not directly or indirectly pursue any other business activity without the prior written consent of Executive’s supervisor, with the exception of passive personal investments not in breach of any other term or provision hereof. Executive agrees to travel to whatever extent is reasonably necessary in the conduct of Employer’s business, at Employer’s expense and pursuant to Employer’s standard policies and procedures.”

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2. Section 4 of the Agreement is amended by amending subsection (e)(1) thereof and by adding a new subsection (i) thereto. As amended, Subsections (e)(1) and (i) of Section 4 of the Agreement read as following:

“4. Termination of Employment. Notwithstanding any other provision of this Agreement, Executive’s employment may be terminated as follows:

...

(e) *Without Cause*. This Agreement may be terminated by Employer without Cause at any time, such termination to be effective thirty (30) days after Executive’s receipt of written notice from Employer; provided that Employer pays Executive each of the following:

(1) Employer shall pay Executive severance payments in an amount equal to Executive’s base salary for twelve (12) months (the “Cash Severance Payments”). Such Cash Severance Payments shall be paid in equal monthly installments to Executive beginning in the month following Executive’s termination. In any event, Employer shall pay to Executive all accrued base salary, all accrued vacation time and any reasonable and necessary business expenses incurred by Executive in connection with his duties, all to the date of termination and payable in a lump sum, less applicable deductions and withholdings, as soon as administratively practicable following Executive’s termination.

...

(i) *Termination Upon a Change of Control*. In the event of a Termination Upon a Change of Control as defined in the Agreement Regarding Change In Control (“Change In Control Agreement”) attached hereto as Exhibit A, Employer’s obligation to Executive shall be as set forth in the Change In Control Agreement.”

3. All other terms of the Agreement remain the same.

IN WITNESS WHEREOF, the parties have executed this amendment to the Agreement effective November 13, 2007.

EMPLOYER :

CAPITAL GOLD CORPORATION

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle, President

EXECUTIVE:

/s/ John Brownlie

John Brownlie

## EXHIBIT A

### AGREEMENT REGARDING CHANGE IN CONTROL

THIS AGREEMENT (“Agreement”), is made and entered into as of the 13 day of November, 2007 (the “Effective Date”) by and between Capital Gold Corporation (the “Company”) and John Brownlie (the “Executive”)

WITNESSETH THAT:

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continuous engagement of key management personnel, and the Board of Directors of the Company (the “Board”) recognizes that, as is the case with many publicly held corporations, a change in control might occur and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s management, including the Executive, to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company;

NOW, THEREFORE, to induce the Executive to remain engaged by the Company and in consideration of the premises and mutual covenants set forth herein, IT IS HEREBY AGREED by and between the parties as follows:

1. AGREEMENT TERM. The initial “Agreement Term” shall begin on the Effective Date and shall continue through December 31, 2009. As of December 31, 2009, and as of each December 31 thereafter, the Agreement Term shall extend automatically to the third anniversary thereof unless the Company gives notice to the Executive prior to the date of such extension that the Agreement Term will not be extended. Notwithstanding the foregoing, if a Change in Control (as defined in Section 7 below), occurs during the Agreement Term, the Agreement Term shall continue through and terminate on the second anniversary of the date on which the Change in Control occurs.

2. ENTITLEMENT TO CHANGE IN CONTROL BENEFITS. The Executive shall be entitled to the Change in Control Benefits described in Section 3 hereof if the Executive's engagement by the Company is terminated during the Agreement Term but after a Change in Control (i) by the Company for any reason other than Permanent Disability or Cause, (ii) by the Executive for Good Reason or (iii) by the Executive for any reason during the 30-day period commencing on the first date which is six months after the date of the Change in Control. For purposes of this Agreement:

(a) A termination of the Executive's engagement shall be treated as a termination by reason of "Permanent Disability" only if, due to a mental or physical disability, the Executive is absent from the performance of services for the Company for a period of at least twelve consecutive months and fails to return to the performance of services within 30 days after receipt of a written demand by the Company to do so.

(b) The term "Cause" shall mean the willful engaging by the Executive in illegal conduct or gross misconduct which is demonstrably and materially injurious to the Company. For purposes of this Agreement, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until the Company delivers to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth above and specifying the particulars thereof in detail.

(c) The term "Good Reason" shall mean the occurrence of any of the following circumstances without the Executive's express written consent:

(i) a significant adverse change in the nature, scope or status of the Executive's position, authorities or services from those in effect immediately prior to the Change in Control, including, without limitation, if the Executive was, immediately prior to the Change in Control, an executive officer of a public company, the Executive ceasing to be an executive officer of a public company;

(ii) the failure by the Company to pay the Executive any portion of the Executive's current compensation, or to pay the Executive any portion of any installment of deferred compensation under any deferred compensation program of the Company, within seven days of the date such compensation is due;

(iii) a reduction in the Executive's annual base compensation (or a material change in the frequency of payment) as in effect immediately prior to the Change in Control as the same may be increased from time to time;

(iv) the failure by the Company to award the Executive an annual bonus in any year which is at least equal to the annual bonus awarded to the Executive for the year immediately preceding the year of the Change in Control;

(v) the failure by the Company to award the Executive equity-based incentive compensation (such as stock options, shares of restricted stock, or other equity-based compensation) on a periodic basis consistent with the Company's practices with respect to timing, value and terms prior to the Change in Control;

(vi) the failure of the Company to award the Executive incentive compensation of any nature based on attained milestones when such milestones are attained.

(vii) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement as contemplated by Section 14.

For purposes of any determination regarding the existence of Good Reason, any good faith determination by the Executive that Good Reason exists shall be conclusive.

3. CHANGE IN CONTROL BENEFITS. In the event of a termination of engagement entitling the Executive to benefits in accordance with Section 2, the Executive shall receive the following:

(a) The Executive shall be entitled to a lump sum payment in cash no later than twenty business days after the Executive's date of termination equal to the sum of:

(i) an amount equal to three times the Executive's base salary in effect on the date of the Change in Control or, or if greater, as in effect immediately prior to the date of termination; plus

(ii) an amount equal to three times the Executive's bonus award for the year immediately preceding the year of the Change in Control.

The amount payable under this paragraph (d) shall be inclusive of the amounts, if any, to which the Executive would otherwise be entitled or by law and shall be in addition to (and not inclusive of) any amount payable under any written agreement(s) directly between the Executive and the Company or any of its subsidiaries.

(b) The exercise price of all of the Company options owned by the Executive shall decrease to \$0.01 per share.

(c) The Company shall provide the Executive with outplacement services and tax and financial counseling suitable to the Executive's position through the third anniversary of the date of the Executive's termination of engagement, or, if earlier, the date on which the Executive becomes employed by another employer.

4. MITIGATION. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other engagement or otherwise. The Company shall not be entitled to set off against the amounts payable to the Executive under this Agreement any amounts owed to the Company by the Executive, any amounts earned by the Executive in other engagement after the Executive's termination of engagement with the Company, or any amounts which might have been earned by the Executive in other engagement had the Executive sought such other engagement.

5. MAKE-WHOLE PAYMENTS. If any payment or benefit to which the Executive (or any person on account of the Executive) is entitled, whether under this Agreement or otherwise, in connection with a Change in Control or the Executive's termination of engagement (a "Payment") constitutes a "parachute payment" within the meaning of section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and as a result thereof the Executive is subject to a tax under section 4999 of the Code, or any successor thereto, (an "Excise Tax"), the Company shall pay to the Executive an additional amount (the "Make-Whole Amount") which is intended to make the Executive whole for such Excise Tax. The Make-Whole Amount shall be equal to (i) the amount of the Excise Tax, plus (ii) the aggregate amount of any interest, penalties, fines or additions to any tax which are imposed in connection with the imposition of such Excise Tax, plus (iii) all income, excise and other applicable taxes imposed on the Executive under the laws of any Federal, state or local government or taxing authority by reason of the payments required under clauses (i) and (ii) and this clause (iii).

(a) For purposes of determining the Make-Whole Amount, the Executive shall be deemed to be taxed at the highest marginal rate under all applicable local, state, federal and foreign income tax laws for the year in which the Make-Whole Amount is paid. The Make-Whole Amount payable with respect to an Excise Tax shall be paid by the Company coincident with the Payment with respect to which such Excise Tax relates.

(b) All calculations under this Section 5 shall be made initially by the Company and the Company shall provide prompt written notice thereof to the Executive to enable the Executive to timely file all applicable tax returns. Upon request of the Executive, the Company shall provide the Executive with sufficient tax and compensation data to enable the Executive or the Executive's tax advisor to independently make the calculations described in subparagraph (a) above and the Company shall reimburse the Executive for reasonable fees and expenses incurred for any such verification.

(c) If the Executive gives written notice to the Company of any objection to the results of the Company's calculations within 60 days of the Executive's receipt of written notice thereof, the dispute shall be referred for determination to independent tax counsel selected by the Company and reasonably acceptable to the Executive ("Tax Counsel"). The Company shall pay all fees and expenses of such Tax Counsel. Pending such determination by Tax Counsel, the Company shall pay the Executive the Make-Whole Amount as determined by it in good faith. The Company shall pay the Executive any additional amount determined by Tax Counsel to be due under this Section 5 (together with interest thereon at a rate equal to 120% of the Federal short-term rate determined under section 1274(d) of the Code) promptly after such determination.

(d) The determination by Tax Counsel shall be conclusive and binding upon all parties unless the Internal Revenue Service, a court of competent jurisdiction, or such other duly empowered governmental body or agency (a "Tax Authority") determines that the Executive owes a greater or lesser amount of Excise Tax with respect to any Payment than the amount determined by Tax Counsel.

(e) If a Taxing Authority makes a claim against the Executive which, if successful, would require the Company to make a payment under this Section 5, the Executive agrees to contest the claim with counsel reasonably satisfactory to the Company, on request of the Company subject to the following conditions:

(i) The Executive shall notify the Company of any such claim within 10 days of becoming aware thereof. In the event that the Company desires the claim to be contested, it shall promptly (but in no event more than 30 days after the notice from the Executive or such shorter time as the Taxing Authority may specify for responding to such claim) request the Executive to contest the claim. The Executive shall not make any payment of any tax which is the subject of the claim before the Executive has given the notice or during the 30-day period thereafter unless the Executive receives written instructions from the Company to make such payment together with an advance of funds sufficient to make the requested payment plus any amounts payable under this Section 5 determined as if such advance were an Excise Tax, in which case the Executive will act promptly in accordance with such instructions.

(ii) If the Company so requests, the Executive will contest the claim by either paying the tax claimed and suing for a refund in the appropriate court or contesting the claim in the United States Tax Court or other appropriate court, as directed by the Company; PROVIDED, HOWEVER, that any request by the Company for the Executive to pay the tax shall be accompanied by an advance from the Company to the Executive of funds sufficient to make the requested payment plus any amounts payable under this Section 5 determined as if such advance were an Excise Tax. If directed by the Company in writing the Executive will take all action necessary to compromise or settle the claim, but in no event will the Executive compromise or settle the claim or cease to contest the claim without the written consent of the Company; PROVIDED, HOWEVER, that the Executive may take any such action if the Executive waives in writing the Executive's right to a payment under this Section 5 for any amounts payable in connection with such claim. The Executive agrees to cooperate in good faith with the Company in contesting the claim and to comply with any reasonable request from the Company concerning the contest of the claim, including the pursuit of administrative remedies, the appropriate forum for any judicial proceedings, and the legal basis for contesting the claim. Upon request of the Company, the Executive shall take appropriate appeals of any judgment or decision that would require the Company make a payment under this Section 5. Provided that Executive is in compliance with the provisions this section, the Company shall be liable for and indemnify the Executive against any loss in connection with, and all costs and expenses, including attorneys' fees, which may be incurred as a result of, contesting the claim, and shall provide to the Executive within 30 days after each written request therefor by the Executive cash advances or reimbursement for all such costs and expenses actually incurred or reasonably expected to be incurred by the Executive as a result of contesting the claim.

(f) Should a Tax Authority finally determine that an additional Excise Tax is owed, then the Company shall pay an additional Make-Whole Amount to the Executive in a manner consistent with this Section 5 with respect to any additional Excise Tax and any assessed interest, fines, or penalties. If any Excise Tax as calculated by the Company or Tax Counsel, as the case may be, is finally determined by a Tax Authority to exceed the amount required to be paid under applicable law, then the Executive shall repay such excess to the Company within 30 days of such determination; provided that such repayment shall be reduced by the amount of any taxes paid by the Executive on such excess which is not offset by the tax benefit attributable to the repayment.

6. TERMINATION DURING POTENTIAL CHANGE IN CONTROL. If a Potential Change in Control (as defined in Section 8) occurs during the Agreement Term, and the Company terminates the Executive's engagement for reasons other than Permanent Disability or Cause during such Potential Change in Control, the Executive shall be entitled to receive the benefits that the Executive would have received under Section 3, such benefits to be calculated based upon the Executive's compensation prior to the actual termination of engagement but paid within 20 business days of the date of such termination.

7. CHANGE IN CONTROL. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

- (a) the date any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (c) below; or
- (b) the date on which the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or
- (c) the date on which there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation or other entity, other than (i) a merger or consolidation (A) immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the Company, the entity surviving such merger or consolidation or, if the Company or the entity surviving such merger or consolidation is then a subsidiary, the ultimate parent thereof and (B) which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities; or

(d) the date on which the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company, in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions.

For purposes of this Agreement: "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act; "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act; "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time; and "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

8. POTENTIAL CHANGE IN CONTROL. A "Potential Change in Control" shall exist during any period in which the circumstances described in paragraphs (a), (b), (c) or (d), below, exist (provided, however, that a Potential Change in Control shall cease to exist not later than the occurrence of a Change in Control):

(a) The Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control, provided that a Potential Change in Control described in this paragraph (a) shall cease to exist upon the expiration or other termination of all such agreements;

(b) Any Person (without regard to the exclusions set forth in subsections (i) through (iv) of such definition) publicly announces an intention to take or to consider taking actions the consummation of which would constitute a Change in Control; provided that a Potential Change in Control described in this paragraph (b) shall cease to exist upon the withdrawal of such intention, or upon a determination by the Board that there is no reasonable chance that such actions would be consummated;

(c) Any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 20% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities;

(d) The Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control exists; provided that a Potential Change in Control described in this paragraph (d) shall cease to exist upon a determination by the Board that the reasons that gave rise to the resolution providing for the existence of a Potential Change in Control have expired or no longer exist.

9. NONALIENATION. The interests of the Executive under this Agreement are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Executive or the Executive's beneficiary.

10. AMENDMENT. This Agreement may be amended or canceled only by mutual agreement of the parties in writing without the consent of any other person. So long as the Executive lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof.

11. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of New York, without regard to the conflict of law provisions of any state.

12. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, and this Agreement will be construed as if such invalid or unenforceable provision were omitted (but only to the extent that such provision cannot be appropriately reformed or modified).

13. WAIVER OF BREACH. No waiver by any party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party of any similar or dissimilar provisions and conditions at the same or any prior or subsequent time. The failure of any party hereto to take any action by reason of such breach will not deprive such party of the right to take action at any time while such breach continues.

14. SUCCESSORS, ASSUMPTION OF CONTRACT. This Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place. This Agreement is personal to the Executive and may not be assigned by the Executive without the written consent of the Company. However, to the extent that rights or benefits under this Agreement otherwise survive the Executive's death, the Executive's heirs and estate shall succeed to such rights and benefits pursuant to the Executive's will or the laws of descent and distribution; provided that the Executive shall have the right at any time and from time to time, by notice delivered to the Company, to designate or to change the beneficiary or beneficiaries with respect to such benefits.

15. NOTICES. Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (provided that international mail shall be sent via overnight or two-day delivery), or sent by facsimile or prepaid overnight courier to the parties at the addresses set forth below. Such notices, demands, claims and other communications shall be deemed given:

(a) in the case of delivery by overnight service with guaranteed next day delivery, the next day or the day designated for delivery;

(b) in the case of certified or registered U.S. mail, five days after deposit in the U.S. mail; or

(c) in the case of facsimile, the date upon which the transmitting party received confirmation of receipt by facsimile, telephone or otherwise;

provided, however, that in no event shall any such communications be deemed to be given later than the date they are actually received. Communications that are to be delivered by the U.S. mail or by overnight service or two-day delivery service are to be delivered to the addresses set forth below:

to the Company:

Capital Gold Corporation  
76 Beaver Street  
26th Floor  
New York, NY 10005

with a copy (which shall not constitute notice) to:

Chief Financial Officer  
Capital Gold Corporation  
76 Beaver Street  
26th Floor  
New York, NY 10005

or to the Executive:

John Brownlie  
6040 Puma Ridge  
Littleton, Colorado 80124

Each party, by written notice furnished to the other party, may modify the applicable delivery address, except that notice of change of address shall be effective only upon receipt.

16. LEGAL AND ENFORCEMENT COSTS. The provisions of this Section 16 shall apply if it becomes necessary or desirable for the Executive to retain legal counsel or incur other costs and expenses in connection with enforcing any and all rights under this Agreement or any other compensation plan maintained by the Company;

(a) The Executive shall be entitled to recover from the Company reasonable attorneys' fees, costs and expenses incurred in connection with such enforcement or defense.

(b) Payments required under this Section 16 shall be made by the Company to the Executive (or directly to the Executive's attorney) promptly following submission to the Company of appropriate documentation evidencing the incurrence of such attorneys' fees, costs, and expenses.

(c) The Executive shall be entitled to select legal counsel; provided, however, that such right of selection shall not affect the requirement that any costs and expenses reimbursable under this Section 16 be reasonable.

(d) The Executive's rights to payments under this Section 16 shall not be affected by the final outcome of any dispute with the Company.

17. SURVIVAL OF AGREEMENT. Except as otherwise expressly provided in this Agreement, the rights and obligations of the parties to this Agreement shall survive the termination of the Executive's engagement with the Company.

18. ENTIRE AGREEMENT. Except as otherwise provided herein, this Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes all prior or contemporaneous agreements, between the parties relating to the subject matter hereof; provided, however, that nothing in this Agreement shall be construed to limit any policy or agreement that is otherwise applicable relating to confidentiality, rights to inventions, copyrightable material, business and/or technical information, trade secrets, solicitation of employees, interference with relationships with other businesses, competition, and other similar policies or agreement for the protection of the business and operations of the Company and the subsidiaries.

19. COUNTERPARTS. This Agreement may be executed in two or more counterparts, any one of which shall be deemed the original without reference to the others.

IN WITNESS THEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name and on its behalf, and its corporate seal to be hereunto affixed on this 13th day of November, 2007, all as of the Effective Date.

/s/ John Brownlie

John Brownlie

CAPITAL GOLD CORPORATION

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle, President

ATTEST:

/s/ Jeffrey W. Pritchard

Jeffrey W. Pritchard, Secretary

*Certifications pursuant to Securities and Exchange Act of 1934 Rule 13a-14 as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002:*

I, Gifford A. Dieterle, Chief Executive Officer of Capital Gold Corporation (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting

Date: December 17, 2007

/s/ Gifford A. Dieterle \_\_\_\_\_  
Gifford A. Dieterle  
Chief Executive Officer

*Certifications pursuant to Securities and Exchange Act of 1934 Rule 13a-14 as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002:*

I, Christopher Chipman, Chief Financial Officer of Capital Gold Corporation (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-QSB of the Registrant;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting

Date: December 17, 2007

/s/ Christopher Chipman  
Christopher Chipman  
Chief Financial Officer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly report of Capital Gold Corporation (the “Company”) on Form 10-QSB for the quarter ended October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gifford A. Dieterle, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Gifford A. Dieterle \_\_\_\_\_  
Gifford A. Dieterle  
Chief Executive Officer  
December 17, 2007

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly report of Capital Gold Corporation (the “Company”) on Form 10-QSB for the quarter ended October 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Christopher Chipman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Christopher Chipman  
Christopher Chipman  
Chief Financial Officer  
December 17, 2007

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