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CAPITAL GOLD CORP  
Form SB-2  
March 09, 2005

As filed with the Securities and Exchange Commission on March 9, 2005  
Registration No. 333-\_\_\_\_\_

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM SB-2  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

CAPITAL GOLD CORPORATION  
(Name of small business issuer in its charter)

Nevada  
(State or jurisdiction of  
incorporation or organization)

1040  
(Primary Standard Industrial  
Classification Code Number)

13-3180530  
(I.R.S. Identification  
Number)Employer

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76 Beaver Street  
New York, NY10005  
(212) 344-2785  
(Address and telephone number of principal executive offices)

Gifford A. Dieterle, Chief Executive Officer  
Capital Gold Corporation  
76 Beaver Street  
New York, NY10005  
(212) 344-2785  
(Name, address and telephone number of agent for service)

Copies of all communications to:  
Richard Feiner, Esq.  
381 Park Avenue South, Suite 1601  
New York, New York, 10016  
(212) 779-8600  
Fax (212) 779-8858

Approximate date of proposed sale to the public: From time to time or at any time after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 ( Securities Act ), other than securities offered only in connection with dividend or reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this form is a post-effective amendment filed pursuant to 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

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## CALCULATION OF REGISTRATION FEE

| <b>Title of Each Class of Securities to be Registered</b> | <b>Amount to be Registered (1)</b> | <b>Proposed Maximum Offering Price Per Share(3)</b> | <b>Proposed Maximum Aggregate Offering Price</b> | <b>Amount of Registration Fee</b> |
|---|------------------------------------|---|--|-----------------------------------|
| Common Stock  | 27,600,004                         | \$0.32  | \$8,832,001                                      | \$1,039.53                        |
| Common Stock (2)  | 36,090,640                         | \$0.32  | \$11,549,005                                     | \$1,359.32                        |
| Total Registration Fee                                    |                                    |   |  | \$2,398.85                        |

- (1) Pursuant to Rule 416 of the Securities Act of 1933, there are also being registered an indeterminate number of additional shares of common stock as may become offered, issuable or sold to prevent dilution resulting from stock splits, stock dividends or similar transactions.
- (2) Represent shares issuable upon exercise of warrants and options owned by certain selling stockholders.
- (3) Estimated solely for the purpose of computing the registration fee in accordance with Rules 457(c) of the Securities Act on the basis of \$0.32 per share, which was the average of the high and low sales prices of the shares of common stock of the Registrant on March 7, 2005, as reported on the OTC Bulletin Board.

The Registrant hereby amends this registration statement on the date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on a date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

**The information in this prospectus is not complete and may be amended. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where an offer or sale is not permitted.**

**Subject to Completion  
Preliminary Prospectus Dated March 9, 2005**

**CAPITAL GOLD CORPORATION**

**63,690,644 Shares of Common Stock**

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This prospectus relates to the resale of 63,690,644 shares of our common, including 36,090,640 shares of common stock issuable upon the exercise of outstanding warrants and options, that may be offered and sold from time to time by the selling stockholders listed on page 36 of this prospectus.

We will not receive any proceeds from the sale of the shares of common stock by the selling stockholders other than payment of the exercise price of the warrants and options.

Our common stock is listed on the Over-The-Counter Bulletin Board under the symbol CGLD. The last reported sales price per share of our common stock as reported by the OTC Bulletin Board on March 7, 2005, was \$0.32.

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*Please see the risk factors beginning on page 3 to read about certain factors you should consider before buying shares of common stock.*

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is March \_\_\_\_\_, 2005

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**PROSPECTUS SUMMARY**

*In the following summary, we have highlighted information that we believe is the most important about us. However, because this is a summary, it may not contain all information that may be important to you. You should read this entire prospectus, including the information incorporated by reference and the financial data and related notes, before making an investment decision. When used in this prospectus, the terms we, our and us refer to Capital Gold Corporation and not to the selling stockholders. You should also see the Glossary for definitions of some of the terms used to describe our business.*

**About Capital Gold**

Through our wholly-owned subsidiary, Oro de Altar S. de R. L. de C.V., and our affiliate, Santa Rita, we own 100% of 14 mining concessions located in the Municipality of Altar, State of Sonora, Republic of Mexico totaling approximately 3,497 hectares (8,642 acres or 13.5 square miles). We are in the process of constructing and developing an open-pit gold mining operation at these concessions.

Our principal executive offices are located at 76 Beaver Street, 26<sup>th</sup> floor, New York, NY10005, and our telephone number is (212) 344-2785.

We plan to construct a surface gold mine and facility capable of producing about 2.6 million metric tons per year of ore and about 48,000 to 50,000 ounces of gold per year, over a five year mine life, at a targeted cash cost of less than \$230 per ounce. Current plans include the construction of a road suitable for heavy equipment to travel to the mine site. Assuming final negotiations are successful with property owners, road construction could begin in late March 2005. Water rights have been identified and negotiations are underway for acquiring the necessary amounts of water required for by the project. New sources of crushing equipment have been identified and bids from possible crushing contractors are being evaluated. We are following the feasibility study for the project, which contains a mining rate of 7,500 metric tonnes per day of ore, however we are in the process of commissioning M3 to begin studying the feasibility of expanding these production rates. In addition, we are interviewing firms to provide contract mining services for the El Chanate project.

**The Offering**

Common stock to be offered  
by the selling stockholders 63,690,644 Shares

Common stock outstanding  
prior to this offering 89,751,939 Shares

Use of Proceeds We will not receive any of the proceeds from the sale of the shares of common stock because they are being offered by the selling stockholders and we are not offering any shares for sale under this prospectus, but we may receive proceeds from the exercise of warrants and options held by the selling stockholders. We will apply such proceeds, if any, toward the construction of our mining operation in Mexico, and for working capital. See *Use of Proceeds*.

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Over-The-Counter Bulletin  
Board symbol

CGLD

The 63,690,644 shares of our common stock offered consist of:

Up to 30,902,004 shares of common stock issuable upon the exercise of outstanding warrants;

Up to 5,188,636 shares of common stock issuable upon the exercise of outstanding options; and

Up to 27,600,004 shares of common stock owned by certain of the selling stockholders.

### Summary Financial Data

In the table below, we provide you with our summary historical financial data. We have prepared this information using our audited financial statements for each of the five years in the period ended July 31, 2004 and our unaudited financial statements for the three months ended October 31, 2003 and October 31, 2004. Operating results for the three months ended October 31, 2004 are not necessarily indicative of the results that may be expected for the year ending July 31, 2005.

It is important that you read this summary historical financial data in conjunction with our historical financial statements and related notes and *Management's Discussion and Analysis of Financial Condition and Results of Operations* appearing elsewhere in this prospectus.

#### Statement of Operations Data

|  | For the Years Ended |                |                |                |                |
|--|---------------------|----------------|----------------|----------------|----------------|
|  | July 31,            |                |                |                |                |
|  | 2000                | 2001           | 2002           | 2003           | 2004           |
|  | \$                  | \$             | \$             | \$             | \$             |
|  |                     | (consolidated) | (consolidated) | (consolidated) | (consolidated) |
| Revenues   | \$                  | \$             | \$             | \$             | \$             |
| Mine Expenses  | \$ 786,360          | \$ 982,585     | \$ 709,961     | \$ 1,028,899   | \$ 673,050     |
| General and Administrative   | \$ 518,018          | \$ 1,431,110   | \$ 639,652     | \$ 770,629     | \$ 687,722     |
| Stock Based Compensation   | \$ 221,585          | \$ 7,002,500   | \$ 222,338     | \$ 288,623     | \$ 379,033     |
| Depreciation   | \$ 5,322            | \$ 3,823       | \$ 3,105       | \$             | \$             |
| Total Other Income (Expense)   | \$ 1,265            | \$ 1,752       | \$ 2,027,810   | \$ (11,735)    | \$ (950,005)   |
| Minority Interest  | \$                  | \$             | \$ 54,543      | \$ 180,625     | \$ 51,220      |
| Write Down of Mining,<br>Milling and Other<br>Property and Equipment | \$                  | \$             | \$ 999,445     | \$             | \$ 300,000     |
| Net Loss   | \$ 1,530,020        | \$ 9,418,266   | \$ 492,148     | \$ 1,919,261   | \$ 2,938,590   |



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For the Three Months Ended

October 31,

|  | 2003                          | 2004                          |
|--|-------------------------------|-------------------------------|
|  | (consolidated)<br>(unaudited) | (consolidated)<br>(unaudited) |
| Revenues   | \$                            | \$                            |
| Mine Expenses  | \$ 146,330                    | \$ 179,968                    |
| General and Administrative   | \$ 139,255                    | \$ 152,007                    |
| Stock Based Compensation   | \$ 33,034                     | \$ 29,260                     |
| Depreciation   | \$                            | \$                            |
| Total Other Income (Expense)   | \$ 174                        | \$ 5,140                      |
| Minority Interest  | \$ 24,548                     | \$                            |
| Write Down of Mining,<br>Milling and Other<br>Property and Equipment | \$                            | \$                            |
| Net Loss   | \$ 293,897                    | \$ 356,095                    |

Balance Sheet Data

As of July 31,

|                      | 2000         | 2001           | 2002           | 2003           | 2004           |
|----------------------|--------------|----------------|----------------|----------------|----------------|
|                      |              | (consolidated) | (consolidated) | (consolidated) | (consolidated) |
| Working Capital      | \$ 8,729     | \$ (3,301)     | \$ 1,192,871   | \$ 105,661     | \$ 182,939     |
| Total Assets         | \$ 1,456,821 | \$ 1,564,428   | \$ 2,056,851   | \$ 761,607     | \$ 485,753     |
| Stockholders' Equity | \$ 1,392,907 | \$ 1,438,591   | \$ 1,622,119   | \$ 651,000     | \$ 281,594     |

As of October 31,

|                 | 2000                          | 2001                          |
|-----------------|-------------------------------|-------------------------------|
|                 | (consolidated)<br>(unaudited) | (consolidated)<br>(unaudited) |
| Working Capital | \$ 87,723                     | \$ 153,724                    |
| Total Assets    | \$ 703,016                    | \$ 447,359                    |



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|                     |    |                |    |                |
|---------------------|----|----------------|----|----------------|
| Stockholders Equity | \$ | <u>623,895</u> | \$ | <u>252,472</u> |
|---------------------|----|----------------|----|----------------|

## RISK FACTORS

**WE ARE SUBJECT TO VARIOUS RISKS THAT MAY MATERIALLY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. YOU SHOULD CAREFULLY CONSIDER THE RISKS AND UNCERTAINTIES DESCRIBED BELOW AND THE OTHER INFORMATION IN THIS PROSPECTUS BEFORE DECIDING TO PURCHASE OUR COMMON STOCK. 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 not generated any operating revenues. If we are unable to commercially develop our mineral properties, we will not be able to generate profits and our business may fail.*

To date, we have no producing properties. As a result, we have no current source of operating revenue and we have historically operated and continue to operate at a loss. 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.

*We lack operating cash flow and rely on external funding sources. If we are unable to continue to obtain needed capital from outside sources until we are able to generate positive cash flow from operations, we will be forced to reduce or curtail our operations.*

We do not generate any positive cash flow from operations and we do not anticipate that any positive cash flow will be generated for some time. Our primary focus is the development of our El Chanate project which, we anticipate, will cost approximately \$15.8 million. In February 2005, we raised approximately \$6.1 million in a private placement and we mandated Standard Bank London Limited as the exclusive arranger of a project finance facility of up to US\$10 million for our El Chanate project. This mandate is not a commitment to provide the funding. Funding is subject to satisfactory completion of due diligence, approvals from Standard Bank's credit committee and execution of definitive documentation. We will need this finance facility or comparable funding from another source to develop the El Chanate project and commence production. The net proceeds from the private placement and the anticipated funds from Standard may not be adequate to complete construction and commence mining operations. For the above reasons, we may need to obtain additional capital from outside sources. To the extent that we need to obtain additional capital, management intends to raise such funds through bank financing, the sale of our securities, the sale of a royalty interest in the future production from the Chanate properties and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding will be available. If we are unable to obtain needed capital from outside sources, we will be forced to reduce or curtail our operations.

*Our year end audited financial statements contain a going concern explanatory paragraph. Our inability to continue as a going concern would require a restatement of assets and liabilities on a liquidation basis, which would differ materially and adversely from the going concern basis on which our financial statements included in this report have been prepared.*

Our consolidated financial statements for the year ended July 31, 2004 included herein have been prepared on the basis of accounting principles applicable to a going concern. Our auditors' report on the consolidated

financial statements contained herein includes an additional explanatory paragraph following the opinion paragraph on our ability to continue as a going concern. A note to these consolidated financial statements describes the reasons why there is substantial doubt about our ability to continue as a going concern and our plans to address this issue. Our July 31, 2004 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our inability to continue as a going concern would require a restatement of assets and liabilities on a liquidation basis, which would differ materially and adversely from the going concern basis on which our consolidated financial statements have been prepared. See, *Management's Discussion and Analysis of Financial Condition and Results of Operations; Liquidity and Capital Resources.*

***If we are unable to obtain a crushing system and other equipment for our Mexican concessions at an acceptable cost or we are unable to retain the services of a crushing contractor, our anticipated results of operations from mining at these concessions, once mining commences, may be adversely affected.***

We currently are in discussions to acquire equipment for use at our Mexican concessions or, alternatively, to retain the services of a crushing contractor. If we are unable to obtain the requisite equipment or contracting services at an acceptable cost, our planned mining operations and our anticipated results of operations from mining at these concessions, once mining commences, may be adversely affected.

***We have a limited number of prospects. As a result, our chances of commencing viable mining operations are dependent upon the success of one project.***

Our only current properties are the El Chanate concessions and our Leadville properties. At present, we are not doing any substantive work at our Leadville properties and, in fact, have written these properties off. Our El Chanate concessions are owned by one of our wholly-owned subsidiaries, Oro de Altar. Santa Rita, another of our Mexican subsidiaries leases the land and claims at El Chanate from Oro de Altar. FG, our former joint venture partner, has the right to receive five percent of Santa Rita's annual dividends, when declared. We currently do not have operations on either of our properties, and we must commence such operations to receive revenues. 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. Between January 1, 2004 and December 30, 2004, the fixed price for gold on the London Exchange has fluctuated between \$373 and \$455 per ounce. Between January 1, 2005 and February 28, 2005, the fixed price for gold on the London Exchange has fluctuated between \$411.10 and \$436.65 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.

***Our property interests 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 foreign countries 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 future operations which, in turn, could have a material adverse impact on our future 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 anticipate selling gold in U.S. dollars; however, we incur a significant amount of our expenses in Mexican pesos. If and when we sell gold, if applicable currency exchange rates fluctuate our revenues and results of operations may be materially and adversely affected.***

If and when we commence sales of gold, such sales will be made 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. At the present time, we have no plan or policy to utilize forward contracts or currency options to minimize this exposure; however, pursuant to the mandate with Standard Bank London Limited we will be required to implement such measures. If and when these measures are implemented, there can be no assurance that such arrangements will be cost effective or be able to fully offset such future currency risks.

***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  
return of capital.

Any such changes may affect our ability to undertake exploration and development activities in respect of present and 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, environmental legislation generally is evolving in a manner which will require:

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

There 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 are not insured against any losses or liabilities that could arise from our operations because we have not commenced operations at El Chanate. Although we plan on obtaining insurance once construction begins, such insurance may not be adequate. If we incur material losses or liabilities because we do not have insurance or our coverage is not adequate, our financial position could be materially and adversely affected.***

We are in the process of developing our Mexican concessions and hope to commence mining operations during calendar 2005. If and when we commence mining operations, such operations will involve a number of risks and hazards, including:

environmental hazards,  
industrial accidents,  
metallurgical and other processing,  
acts of God, and  
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
- possible legal liability.

Industrial accidents could have a material adverse effect on our future business and operations. Although as we move forward in the development of our concessions we plan to obtain and maintain insurance within ranges of coverage consistent with industry practice, we cannot be certain that this insurance will cover 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 we need to retain additional personnel and/or contractors to develop our El Chanate project. If we lose the services of these personnel or we are unable to retain additional personnel and/or contractors, our ability to complete development and operate our El Chanate project may be delayed and our planned operations may be materially adverse affected.***

We are dependent on a relatively small number of key personnel, the loss of any one of whom could have an adverse effect on us. In addition, while certain of our officers and directors have experience in the exploration and operation of gold producing properties, we need to retain additional personnel and/or contractors to develop and operate our El Chanate project. There can be no guarantee that such personnel or contractors will be available to carry out such activities on our behalf or be available upon commercially acceptable terms. If we lose the services of our key personnel or we are unable to retain additional personnel and/or contractors, our ability to complete development and operate our El Chanate project may be delayed and our planned operations may be materially adverse 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 of 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.

***Should we successfully commence mining operations in Mexico, our ability to remain profitable long term, should we become profitable, 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. 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***

***There is a limited market for our common stock. If a substantial and sustained market for our common stock does not develop, our stockholders may have difficulty selling, or be unable to sell, their shares.***

Our common stock is tradable in the over-the-counter market and is quoted on the Over-The-Counter Bulletin Board. There is only a limited market for our common stock and there can be no assurance that this market will be maintained or broadened. If a substantial and sustained market for our common stock does not develop, our stockholders may have difficulty selling, or be unable to sell, their shares.

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

As of March 3, 2005, approximately 52,797,138 shares of our common stock, constituted restricted securities as defined in Rule 144 under the Securities Act of 1933. Approximately 52 % of these shares are registered herein. In addition, we have registered herein 30,902,004 shares of common stock issuable upon the exercise of outstanding warrants and 5,188,636 shares of common stock issuable upon the exercise of outstanding options. 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 conversion price and exercise price of these securities are adjusted pursuant to anti-dilution protection, the securities could be exercisable or convertible for even more shares of common stock. In addition, should we consummate the project finance facility with Standard Bank, we will be required to issue warrants for an additional 14.6 million shares and to register the shares issuable upon exercise of these warrants for public resale. 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 dividends in the near future.***

Our board of directors determines whether to pay 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. In addition, our ability to pay dividends may be restricted by financial covenants in any project finance facility we enter into with Standard Bank or another lender.

*Our common stock currently is a penny stock. As a result, trading of our shares is subject to special requirements that could impede our stockholders' ability to resell their shares.*

Our common stock is a penny stock as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission because it is selling at a price below five dollars per share. In the future, if we are unable to list our common stock on NASDAQ or a national securities exchange or the per share sale price is not at least \$5.00, our common stock may continue to be deemed to be a penny stock. Penny stocks are stocks:

- i. with a price of less than five dollars per share;
- ii. that are not traded on a recognized national exchange;  
whose prices are not quoted on the NASDAQ automated quotation system; or
- iii. of issuers with net tangible assets equal to or less than  
-\$2,000,000 if the issuer has been in continuous operation for at least three years; or  
-\$5,000,000 if in continuous operation for less than three years, or  
of issuers with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Securities and Exchange Commission, require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Moreover, Rule 15g-9 of the Securities and Exchange Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer:

- i. to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;
- ii. to determine reasonably, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;
- iii. to provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and
- iv. to receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them.

## FORWARD-LOOKING STATEMENTS

### Risks Associated With Forward-Looking Statements

Certain statements in this prospectus 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 prospectus 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 and mine development and construction plans, costs, grade, production and recovery rates, permitting, financing needs, the availability of financing on acceptable terms or other sources of funding, and the timing of additional tests, feasibility studies and environmental permitting 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 risk factors discussed below, 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 prospectus. 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.

**USE OF PROCEEDS**

Proceeds, if any, from stockholders exercising some or all of the Warrants and Options will be used for the development of our El Chante project and for working capital.

**DIVIDEND POLICY**

We have not paid any cash dividends since our inception and do not anticipate paying cash dividends in the foreseeable future. In addition, our ability to pay dividends may be restricted by financial covenants in any project finance facility we enter into with Standard Bank or another lender.

**PRICE RANGE OF COMMON STOCK**

Our common stock is quoted on the OTC Bulletin Board under the symbol CGLD.

The following table sets forth the range of high and low closing bid quotes of our Common Stock per quarter for the past two fiscal years and the past two fiscal quarters as reported by the OTC Bulletin Board (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessary represent actual transactions).

| <u>Quarter Ending</u> | <u>High</u> | <u>and</u> | <u>Low</u> |
|-----------------------|-------------|------------|------------|
| January 31, 2005      | 0.38        |            | 0.37       |
| October 31, 2004      | 0.33        |            | 0.19       |
| July 31, 2004         | 0.29        |            | 0.20       |
| April 30, 2004        | 0.58        |            | 0.27       |
| January 31, 2004      | 0.65        |            | 0.23       |
| October 31, 2003      | 0.28        |            | 0.20       |
| July 31, 2003         | 0.43        |            | 0.23       |
| April 30, 2003        | 0.33        |            | 0.19       |
| January 31, 2003      | 0.26        |            | 0.12       |
| October 31, 2002      | 0.18        |            | 0.12       |

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On March 7, 2005, the closing sale price of our common stock as reported on the OTC Bulletin Board was \$0.32 per share. As of March 3, 2005, there were approximately 1,125 holders of record of our common stock not including holders in street name.

### SELECTED FINANCIAL DATA

Our selected historical financial information presented as of July 31, 2000, 2001, 2002, 2003 and 2004 and for each of the five years ended July 31, 2004 was derived from our audited financial statements. Our selected historical financial information presented as of October 31, 2003 and 2004 and for the three month periods ended October 31, 2003 and 2004 are unaudited. Operating results for the three months ended October 31, 2004 are not necessarily indicative of the results that may be expected for the year ending July 31, 2005. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation have been included.

*This information should be read in conjunction with the historical financial statements and related notes included herein, and Management's Discussion and Analysis of Financial Condition and Results of Operations.*

#### Statements of Operations Data

|  | For the Years Ended |                |                |                |                |
|--|---------------------|----------------|----------------|----------------|----------------|
|  | July 31,            |                |                |                |                |
|  | 2000                | 2001           | 2002           | 2003           | 2004           |
|  |                     | (consolidated) | (consolidated) | (consolidated) | (consolidated) |
| Revenues   | \$                  | \$             | \$             | \$             | \$             |
| Mine Expenses  | \$ 786,360          | \$ 982,585     | \$ 709,961     | \$ 1,028,899   | \$ 673,050     |
| General and Administrative   | \$ 518,018          | \$ 1,431,110   | \$ 639,652     | \$ 770,629     | \$ 687,722     |
| Stock Based Compensation   | \$ 221,585          | \$ 7,002,500   | \$ 222,338     | \$ 288,623     | \$ 379,033     |
| Depreciation   | \$ 5,322            | \$ 3,823       | \$ 3,105       | \$             | \$             |
| Total Other Income (Expense)   | \$ 1,265            | \$ 1,752       | \$ 2,027,810   | \$ (11,735)    | \$ (950,005)   |
| Minority Interest  | \$                  | \$             | \$ 54,543      | \$ 180,625     | \$ 51,220      |
| Write Down of Mining,<br>Milling and Other<br>Property and Equipment | \$                  | \$             | \$ 999,445     | \$             | \$ 300,000     |
| Net Loss   | \$ 1,530,020        | \$ 9,418,266   | \$ 492,148     | \$ 1,919,261   | \$ 2,938,590   |

|          | For the Three Months Ended |             |
|----------|----------------------------|-------------|
|          | October 31,                |             |
|          | 2003                       | 2004        |
|          | (unaudited)                | (unaudited) |
| Revenues | \$                         | \$          |

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|  | <b>For the Three Months Ended</b> |            |
|--|-----------------------------------|------------|
| Mine Expenses  | \$ 146,330                        | \$ 179,968 |
| General and Administrative   | \$ 139,255                        | \$ 152,007 |
| Stock Based Compensation   | \$ 33,034                         | \$ 29,260  |
| Depreciation   | \$                                | \$         |
| Total Other Income (Expense)   | \$ 174                            | \$ 5,140   |
| Minority Interest  | \$ 24,548                         | \$         |
| Write Down of Mining,<br>Milling and Other<br>Property and Equipment | \$                                | \$         |
| Net Loss   | \$ 293,897                        | \$ 356,095 |



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*Other Cash Flows Data*

|   | For the Years Ended |                |                |                |                |
|---|---------------------|----------------|----------------|----------------|----------------|
|   | July 31,            |                |                |                |                |
|   | 2000                | 2001           | 2002           | 2003           | 2004           |
|   | (Consolidated)      | (Consolidated) | (Consolidated) | (Consolidated) | (Consolidated) |
| Net Cash (Used) in Operations             | \$ (1,106,817)      | \$ (1,719,539) | \$ (1,094,098) | \$ (1,889,349) | \$ (1,423,372) |
| Net Cash Provided by Investing Activities | \$                  | \$ 7,870       | \$ 670,886     | \$ 1,429,249   | \$ 2,992       |
| Net Cash from Financing Activities        | \$ 1,049,346        | \$ 1,726,167   | \$ 511,453     | \$ 494,601     | \$ 1,362,776   |
| Effects of Exchange Rates on Cash         | \$                  | \$             | \$ (2,728)     | \$ 62,476      | \$ 19,637      |
| Net Increase (Decrease) in Cash           | \$ (57,471)         | \$ 14,498      | \$ 85,513      | \$ 96,977      | \$ (37,967)    |

|  | For the Three Months Ended    |                               |
|--|-------------------------------|-------------------------------|
|  | July 31,                      |                               |
|  | 2003                          | 2004                          |
|  | (Consolidated)<br>(Unaudited) | (Consolidated)<br>(Unaudited) |
| Net Cash (Used) in Operations                    | \$ (339,415)                  | \$ (328,380)                  |
| Net Cash Provided (Used) by Investing Activities | \$                            | \$ (93)                       |
| Net Cash from Financing Activities               | \$ 195,102                    | \$ 226,820                    |
| Effects of Exchange Rates on Cash                | \$ 23,721                     | \$ 6,088                      |
| Net Increase (Decrease) in Cash                  | \$ (120,592)                  | \$ (95,565)                   |

*Balance Sheet Data*

| As of July 31, |      |      |      |      |
|----------------|------|------|------|------|
| 2000           | 2001 | 2002 | 2003 | 2004 |

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|                           |                     | As of July 31,      |                     |                   |                   |
|---------------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
|                           |                     | (consolidated)      | (consolidated)      | (consolidated)    | (consolidated)    |
| Cash                      | \$ 49,422           | \$ 63,920           | \$ 149,433          | \$ 246,410        | \$ 208,443        |
| Total Current Assets      | <u>\$ 67,151</u>    | <u>\$ 122,536</u>   | <u>\$ 1,659,888</u> | <u>\$ 359,960</u> | <u>\$ 387,098</u> |
| Equipment (Net)           | <u>\$ 1,344,853</u> | <u>\$ 1,390,475</u> | <u>\$ 346,378</u>   | <u>\$ 344,780</u> | <u>\$ 44,780</u>  |
| Total Assets              | <u>\$ 1,456,821</u> | <u>\$ 1,564,428</u> | <u>\$ 2,056,851</u> | <u>\$ 761,607</u> | <u>\$ 485,753</u> |
| Total Current Liabilities | <u>\$ 58,422</u>    | <u>\$ 125,837</u>   | <u>\$ 467,017</u>   | <u>\$ 254,299</u> | <u>\$ 204,159</u> |
| Stockholders Equity       | <u>\$ 1,392,907</u> | <u>\$ 1,438,591</u> | <u>\$ 1,622,119</u> | <u>\$ 651,000</u> | <u>\$ 281,594</u> |

As of October 31,

|                           | 2000                          | 2001                          |
|---------------------------|-------------------------------|-------------------------------|
|                           | (consolidated)<br>(unaudited) | (consolidated)<br>(unaudited) |
| Cash                      | \$ 125,818                    | \$ 112,878                    |
| Total Current Assets      | \$ 300,205                    | \$ 348,611                    |
| Equipment (Net)           | \$ 344,780                    | \$ 44,780                     |
| Total Assets              | \$ 703,016                    | \$ 447,359                    |
| Total Current Liabilities | \$ 212,482                    | \$ 194,887                    |
| Stockholders Equity       | \$ 623,895                    | \$ 252,472                    |

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our financial statements and related notes included elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors including, but not limited to, those set forth under "Risk Factors" and elsewhere in this prospectus.

**Result of Operations**

*Three months ended October 31, 2004 compared to three months ended October 31, 2003*

*Revenues*

We generated no revenues from mining operations during the three months ended October 31, 2004 and 2003. There were de minimis non-operating revenues during the three months ended October 31, 2004 and 2003 of approximately \$5,140 and \$174, respectively. These non-operating revenues primarily represent interest income and proceeds of equipment sales in 2004.

*Costs and Expenses*

Over all costs and expenses during the three months ended October 31, 2004 (\$361,235) increased by \$42,616 (approximately 13%) from the three months ended October 31, 2003 (\$318,619). The primary reason for the increase during the three months ended October 31, 2004 was increases in mine and in selling, general and administrative expenses, offset by a small decrease in stock based compensation.

Mine expenses during the three months ended October 31, 2004 (\$179,968) increased by \$33,638 (approximately 23%) from the three months ended October 31, 2003 (\$146,330). We believe that the increase in mine expenses resulted primarily from increased professional and engineering costs.

Selling, general and administrative expenses during the three months ended October 31, 2004 (\$152,007) increased by \$12,252 (approximately 9%) from the three months ended October 31, 2003 (\$139,255). We believe that the increase in selling, general and administration expenses resulted primarily from an increase in investment banking services during the three months ended October 31, 2004.



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Stock based compensation during the three months ended October 31, 2004 was \$29,620 compared to \$33,034 for the three months ended October 31, 2003.

### *Net Loss*

As a result, our net loss for the three months ended October 31, 2004 was \$356,095, which was \$62,198 greater than our \$293,897 net loss for the three months ended October 31, 2003.

### *Loss from Changes in Foreign Exchange Rates*

During the three months ended October 31, 2004, we recorded equity adjustments from foreign currency translations of approximately \$5,900. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar.

### ***Fiscal year ended July 31, 2004 compared to fiscal year ended July 31, 2003***

#### *Revenues.*

We generated no revenues from mining operations during the fiscal year ended July 31, 2004 and 2003. We generated interest income during the 12 months ended July 31, 2004 of approximately \$4,000 a decrease of \$28,000 from the 12 months period ended July 31, 2003 (\$32,000). This decrease resulted from lower cash balances in 2004 and interest on the receivable from the sale of our subsidiary, Minera Chanate, which was fully collected during 2003.

#### *Costs and Expenses.*

Over all, costs and expenses during the 12 months ended July 31, 2004 (\$2,040,000) decreased by \$48,000 (approximately 2.3%) from the 12 months ended July 31, 2003 (\$2,088,000). However, this decrease primarily relates to an increase in the write down of mining and milling properties (\$300,000) offset by a decrease in other costs and expenses.

In accordance with SFAS 144, Accounting for the Impairment and Disposal of Long-Lived Assets, we review our long-lived assets for impairment. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts. During the year ended July 31, 2002, we performed a review of our Colorado mine and mill improvements and determined that an impairment loss should be recognized. Accordingly, at July 31, 2002, we significantly reduced by \$999,445 the net carrying value of certain assets relating to our Leadville, Colorado facility to \$300,000. At July 31, 2004, we further reduced the net carrying value to \$0, which approximates our management's estimate of fair value.

Mine expenses during the 12 months ended July 31, 2004 (\$673,000) decreased by \$356,000 (approximately 34.6%) from the 12 months ended July 31, 2003 (\$1,029,000). We believe that the decrease in mine expenses resulted primarily from the termination of the joint venture agreement in Mexico.

Selling, general and administrative expenses during the 12 months ended July 31, 2004 (\$688,000) decreased by \$83,000 (approximately 10.8%) from the 12 months ended July 31, 2003 (\$771,000). We believe that the decrease is due to a decrease in miscellaneous administrative costs.

*Other Expenses:*

During the year ending July 31, 2004 we incurred a loss of \$800,000 on the joint venture termination. In addition, a loss of \$150,000 resulted from the minority interest write-off.

Stock based compensation increased \$90,000 approximately (31.1%) during the 12 months ended July 31, 2004 (\$379,000) from the 12 months ended July 31, 2003 (\$289,000).

*Net Loss.*

As a result, our net loss for the 12 months ended July 31, 2004 was \$2,939,000, which was \$1,020,000 more than our \$1,919,000 loss for the 12 months ended July 31, 2003.

*Loss from Changes in Foreign Exchange Rates*

During the year ended July 31, 2004, we recorded equity adjustments from foreign currency translations of approximately \$25,000. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar.

**Liquidity And Capital Resources**

As of October 31, 2004, we had working capital of \$153,724. Our plans over the next 12 months primarily include the cost of engineering, water and construction of the El Chanate open-pit gold mine in Mexico and general administrative costs in New York.

Our planned activities over the next twelve months in Mexico, in order of priority, are as set forth below. The activities and the costs may vary materially, especially if we determine to retain contractors to perform crushing and/or mining activities.

| <u>Activity</u>   | <u>Estimated Cost</u> |
|---|-----------------------|
| <i>Mexico</i>   |                       |
| Crushing, leaching and carbon systems                   | \$ 5,700,000          |
| Power and water systems                                 | 2,100,000             |
| Trucks and other mining equipment                       | 2,300,000             |
| Engineering and planning                                | 1,100,000             |
| Ancillaries (building, shops, lab and road)             | 1,100,000             |
| General and administrative expenses and working capital | 2,100,000             |
| <i>New York and Colorado</i>                            |                       |
| General, administrative and professional expenses       | 1,380,000             |
| Total   | \$ 15,780,000         |

Historically, we have not generated any material revenues from operations and have been in a precarious financial condition. Our condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have recurring losses from operations. Until July 31, 2003, we had been funding our operating requirements through funds obtained from our sale of Minera Chanate. All of the proceeds

from the sale have been expended. During the year ended July 31, 2004, we obtained approximately \$1,300,000 from the issuance of Common Stock. Our primary source of funds used during the quarter ended October 31, 2004 was from the sale and issuance of common stock for gross proceeds of approximately \$227,000. However, in February 2005, we completed a private placement, netting approximately \$6.1 million, and mandated Standard Bank London Limited as the exclusive arranger of a project finance facility of up to US\$10 million for our El Chanate gold mining project in Sonora State, Mexico.

#### *February 2005 Private Placement*

In the private placement that closed in February 2005 we issued 27,200,004 shares of our Common Stock and warrants to purchase an aggregate of up to 27,200,004 shares of our Common Stock for an aggregate gross purchase price of approximately \$6.8 million and we received approximately \$6.1 million in net proceeds. The Warrant issued to each purchaser is exercisable for one share of our Common Stock, at an exercise price equal to \$0.30 per share. Each Warrant has a term of two years and is fully exercisable from the date of issuance. We issued to the placement agent two year warrants to purchase up to 2,702,000 shares of our Common Stock at an exercise price of \$0.25 per share. The purchasers acquired the common stock and warrants to purchase common stock to which this prospectus relates directly from us in transactions exempt from the registration requirements of the federal and state securities laws. All of the securities were issued and sold solely to accredited investors, as defined in Rule 501 of Regulation D pursuant to the Securities Act.

We have agreed to file with the Securities and Exchange Commission a registration statement of which this prospectus forms a part covering resales of the foregoing shares and shares issuable upon the exercise of the foregoing Warrants (collectively, the registrable shares ). We also agreed to prepare and file all amendments and supplements necessary to keep the registration statement effective until the earlier of the date on which the selling stockholders may resell all the registrable shares covered by the registration statement without volume restrictions pursuant to Rule 144(k) under the Securities Act or any successor rule of similar effect and the date on which the selling stockholders have sold all the shares covered by the registration statement.

In addition, we agreed to have our common stock listed for trading on the Toronto Stock Exchange. If our common stock is not listed for trading on the Toronto Stock Exchange or the registration statement, of which this prospectus forms a part, is not declared effective by the SEC within 180 days after February 8, 2005, then we will be required to issue to these selling stockholders an additional number of shares of our common stock that is equal to 20% of the number of shares acquired by them in the private placement. In addition, if the registration statement is not declared effective by the SEC within 180 days after February 8, 2005 or, after the registration statement is declared effective by the SEC, subject to certain exceptions, sales of all shares so registered cannot be made pursuant to the registration statement, then we will be required to pay to these selling stockholders in cash or, at our option in shares, their pro rata share of 0.0833% of the aggregate market value of the registrable shares held by these selling stockholders for each month thereafter until the registration statement is declared effective or sales of the registrable shares can again be made pursuant to the registration statement, as the case may be.

#### *Project Finance Facility*

On February 2, 2005, we mandated Standard Bank London Limited as the exclusive arranger of a project finance facility of up to US\$10 million for our El Chanate gold mining project and associated hedging. We anticipate that Standard Bank will administer the loan and the hedging throughout the construction and operational phases of the project.

Although the specific terms of the proposed financing are subject to alteration, we anticipate, among other things, that the loan would mature in five years after the initial draw and bear interest at a rate linked to the 1,2,3 or 6 month Libor rate. The loan would be secured by our assets and supported by our guarantee. In addition, we will be required to deposit all cash proceeds we receive from operations and other sources in an off-shore account. Absent default by us under the finance documents, we may use funds from this account for specific purposes such as approved operating costs, budgeted capital expenditures, hedging costs and funds payable to Standard Bank under the finance documents. We would be required to meet and maintain certain financial covenants and we would be required to conform to certain negative covenants such as restrictions on sale of assets. We also would be required to enter into a gold price protection program that mitigates the gold price risk by purchasing price protection in a manner satisfactory to the lender.

As required by the mandate, we issued to Standard Bank 1,000,000 common stock purchase warrants and paid an initial cash fee of \$100,000. If Standard Bank determines to proceed with the funding, we will be required to pay certain additional fees and issue to Standard Bank an additional 14,600,000 common stock purchase warrants.

Per our arrangement with Standard Bank, the shares issuable upon exercise of the 1,000,000 common stock purchase warrants are registered herein for public resale. We also will be required to so register the shares issuable upon exercise of the additional 14,600,000 warrants if and when these warrants are issued.

This mandate is not a commitment to provide the funding. Funding is subject to satisfactory completion of due diligence, approvals from Standard Bank's credit committee and execution of definitive documentation.

If Standard determines not to provide the funding, we will be required to obtain such funding from another source. In addition, as discussed above, we estimate that we will need approximately \$15.8 million to complete a mine at the El Chanate concessions. Accordingly, the net proceeds from the 2005 private placement and the anticipated funds from Standard Bank may not be adequate to complete construction and commence mining operations. To the extent that we need to obtain additional capital, management intends to raise such funds through bank financing, the sale of our securities, the sale of a royalty interest in the future production from the Chanate properties and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available. If we are unable to obtain needed capital from outside sources, we will be forced to reduce or curtail our operations.

#### **Environmental Issues**

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. In Mexico, 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 and we recently received the explosive permit from the government.

We own properties in Leadville, Colorado that we have written off. 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 is determined at a fixed amount of \$0.05 per metric tonne of material to be milled on a continual, ongoing basis to provide primarily for reclaiming tailing disposal sites and other reclamation requirements. At this time, there do not appear to be any environmental costs to be incurred by us beyond those already addressed above. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect our planned operations.

**Contractual Obligations as of July 31, 2004**

Lease Commitments

We occupy office space in New York City under a non cancelable operating lease that commenced on September 1, 2002 and terminates on August 31, 2007. In addition to base rent, the lease calls for payment of utilities and other occupancy costs.

Approximate future minimum payments under this lease are as follows:

|                      |            |
|----------------------|------------|
| Year Ending July 31, |            |
| 2005                 | \$ 54,000  |
| 2006                 | 55,000     |
| 2007                 | 38,000     |
|                      | <hr/>      |
|                      | \$ 147,000 |
|                      | <hr/>      |

Rent expense under the office lease in New York City was approximately \$57,000 and \$56,000 for the years ended July 31, 2004 and 2003, respectively.

**New Accounting Pronouncements**

Financial Accounting Standards Board ( FASB ) Statement No. 151 Inventory Costs an amendment of ARB No. 43, Chapter 4 , FASB Statement No. 152, Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67 , FASB Statement No. 153, Exchanges of Non Monetary Assets an amendment of APB Opinion No. 29 , and FASB Statement No. 123R, Share Based Payment were issued November 2004, December 2004, December 2004 and December 2004, respectively. FASB Statements No. 151, 152 and 153 have no current applicability to us or their effect on the consolidated financial statements would not have been significant

FASB Statement No. 123R is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation . This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and its related implementation guidance.

This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF

Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statements of Position 93-6, Employers Accounting for Employee Stock Ownership Plans.

This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award-the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in Statement 123.

This Statement is effective for us as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The provisions of this Statement will be adopted in quarter ending April 30, 2006. We are in the process of assessing the impact of adopting this Statement.

#### **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 impairment of long-lived assets, accounting for stock-based compensation and environmental remediation costs.

In accordance with SFAS 144, Accounting for the Impairment and Disposal of Long-Lived Assets, we review our long-lived assets for impairments. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts. During the year ended July 31, 2002, we performed a review of our Colorado mine and mill improvements and determined that an impairment loss should be recognized. Accordingly, at July 31, 2002, we reduced by \$999,445 the net carrying value of certain assets relating to our Leadville, Colorado facility to \$300,000, and further reduced the net carrying value to \$0 at July 31, 2004, which approximates management's estimate of fair value.

Environmental remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. It is reasonably possible that our estimates of reclamation liabilities, if any, could change as a result of changes in regulations, extent of environmental remediation required, means of reclamation or cost estimates. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. There were no environmental remediation costs incurred or accrued at October 31, 2004.

**OUR BUSINESS**

We, directly or indirectly, own concessions located in the State of Sonora, Mexico and rights to property located in the California Mining District, Lake County, Colorado. We are engaged in the business of exploring for gold and other minerals on our Mexican concessions. We have written off our Colorado properties.

**Sonora, Mexico****El Chanate**

In June 2001, we purchased 100% of the issued and outstanding stock of Minera Chanate, S.A. de C.V. Minera Chanate's assets at the time of the closing of the purchase consisted of 106 exploitation and exploration concessions in the States of Sonora, Chihuahua and Guerrero, Mexico. By June of 2002, after property reviews and to minimize tax payments, the 106 had been reduced to 12 concessions. To cover certain non-critical gaps between concessions, two new concessions were located, and the number of concessions is now 14. These concessions are contiguous, totaling approximately 3,497 hectares (8,642 acres or 13.5 square miles). We sometimes refer to these concessions as the El Chanate concessions or the El Chanate project. We also own outright 466 hectares (1,151 acres or 1.8 square miles) of surface rights at El Chanate and no third party ownership or leases exist on this fee land or the El Chanate concessions. See *Acquisition of El Chanate concessions* below.

The 14 mining concessions are as follows:

| <u>Concession Name</u> | <u>Title No.</u> | <u>Hectares</u>   |
|------------------------|------------------|-------------------|
| 1 San Jose             | 200718           | 96.0000           |
| 2 Las Dos Virgen       | 214874           | 132.2350          |
| 3 Rono I               | 206408           | 82.1902           |
| 4 Rono 3               | 214224           | 197.2180          |
| 5 La Cuchilla          | 211987           | 143.3481          |
| 6 Elsa                 | 212004           | 2,035.3997        |
| 7 Elisa                | 214223           | 78.4717           |
| 8 Ena                  | 217495           | 190.0000          |
| 9 Eva                  | 212395           | 416.8963          |
| 10 Mirsa               | 212082           | 20.5518           |
| 11 Olga                | 212081           | 60.5890           |
| 12 Edna                | 212355           | 24.0431           |
| 13 La Tira             | 219624           | 1.7975            |
| 14 La Tira 1           | 219623           | 18.6087           |
|                        | <b>Total</b>     | <b>3,497.3491</b> |

*Surface Property Ownership*

Anglo Gold purchased surface property ownership, consisting of 466 Hectares in Altar, Sonora, on January 27, 1998. The ownership was conveyed to our subsidiary, Oro de Altar S.A. de C.V., in 2002. Santa Rita, one of our wholly-owned Mexican affiliates, has a lease on the property for the purpose of mining the Chanate gold deposit. The purchase transaction was recorded as public deed 19,591 granted by Mr. Jose Maria Morera Gonzalez, Notary Public 102 of the Federal District, registered at the Public Registry of Property of Caborca, Sonora, under number 36026, book one, volume 169 of the real estate registry section on May 7, 1998.

*General information and location*

The El Chanate project is located in the State of Sonora, Mexico, 37 kilometers northeast of the town of Caborca. It is accessible by paved and all weather dirt roads. Driving time from Caborca is approximately 40 minutes. Access from Caborca to the village of 16 de September is over well maintained National highways. Beyond the 16 de September village, routes to the property are currently over well traveled gravel and sandy desert roads. We have negotiated long term access that does not pass through the village of 16 de September, and construction of this road is scheduled to begin before the end of March 2005

The project is situated on the Sonora desert in a hot and windy climate, generally devoid of vegetation with the exception of cactus. The terrain is generally flat with immense, shallow basins, scattered rock outcropping and low rocky hills and ridges. The desert floor is covered by shallow, fine sediment, gravel and caliche. The main body of the known surface gold covers and irregularly shaped area of approximately 1,800 feet long by 900 feet wide. Several satellite mineral anomalies exist on surfaces

which have not been thoroughly explored. Assays on chip samples taken from trenches at these locations by us indicate the presence of gold mineralization.

The general El Chanate mine area has been mined for gold since the early 19<sup>th</sup> century. A number of old underground workings exist characterized by narrow shafts, to a depth of several tens of feet and connecting drifts and cross cuts. No information exists regarding the amount of gold taken out; however, indications are that mining was conducted on a small scale.

#### *Geology*

The project area is underlain by sedimentary rocks of the Late Jurassic – Early Cretaceous Bisbee Group, and the Late Cretaceous Chanate Group, which locally are overlain by andesites of the Cretaceous El Charro volcanic complex. The sedimentary strata are locally intruded by Andesitic sills and dikes, a microporphyrritic latite and by diorite stock. The sedimentary strata are comprised of mudstone, siltstone, sandstone, conglomerate, shale and limestone. Within the drilled resource area, a predecessor exploration company differentiated two units on the basis of their position relative to the Chanate fault. The upper member is an undifferentiated sequence of sandstone, conglomerate and lesser mudstone that lies above the Chanate fault and it is assigned to the Escalante Formation of the Middle Cretaceous Chanate Group. The lower member is comprised of mudstone with mixed in sandstone lenses and thin limestone interbeds; it lies below the Chanate fault and is assigned to the Arroyo Sasabe Formation of the Lower Cretaceous Bisbee Group. The Arroyo Sasabe formation overlies the Morita Formation of the Bisbee Group. Both the Escalante and Arroyo Sasabe formations are significantly mineralized proximal to the Chanate fault, while the Morita Formation is barren.

The main structural feature of the project area is the Chanate fault, a 7km long (minimum) northwest-striking, variably southwest-dipping structure that has been interpreted to be a thrust fault. The Chanate fault is overturned (north-dipping) at surface, and is marked by brittle deformation and shearing which has created a pronounced fracture foliation and fissility in the host rocks. In drill holes the fault is often marked the presence of an andesite dike. Reports prepared by a predecessor exploration company describe the fault as consisting of a series of thrust ramps and flats; however, geologic cross sections which we have reviewed but did not prepare may negate this interpretation.

#### *Alteration/Mineralization*

A predecessor exploration company has defined a 600 meter long, 300 meter wide, 120 meter thick zone of alteration that is centered about the Chanate fault. The strata within this zone have been sericised, silicified and pyritized to varying degrees. In surface outcrop the altered zone is distinguished by its bleached appearance relative to unaltered rock. The mineralized zone contains only single digit ppm (parts per million) levels of silver. Dense swarms of veinlets form thick, mineralized lenses, within a larger area of sub economic but anomalous gold concentrations. Drill hole data indicates that the mineralized lenses are sub horizontal to gently southwest-dipping and are grossly parallel to the Chanate fault. The fault zone itself is also weakly mineralized, although strata in the near hanging wall and footwall are appreciably mineralized.

#### *Work to Date*

The El Chanate property has been the site of small scale mining of high grade quartz veins (La Cuchilla mine) during the last century. Modern exploration includes work by Phelps Dodge in the 1980 s as part of a copper exploration program. Kennecott conducted geologic mapping and geochemical sampling in 1991 and dropped the property. A Mexican subsidiary of AngloGold explored the property intermittently between 1992 and 1997, and has conducted extensive surface geologic mapping, geochemical sampling,

geophysical studies and drilling, including 11,000 meters of trenching, over 14 line-kilometers of induced polarization geophysical surveys, 61 line-kilometers of VLF-magnetometry geophysical surveys, 87 line-kilometers of enzyme leach geochemical surveys and 34,000 meters of R.C. drilling in 190 holes and 1080 meters of diamond drilling in 9 holes. That company also commissioned various consultant studies concerning petrography, fluid inclusions, air photo interpretation and structural analyses, and conducted some metallurgical test work.

In April and May 2002, to confirm previous results obtained by third parties and to provide specifically located metallurgical test samples, we drilled six diamond core holes totaling 1,508 feet into the main mineralized zone at El Chanate. Management believes that the diamond drill results generally confirmed the previous results and, in June 2002 and January 2003, we drilled an additional 45 reverse circulation holes totaling 9,410 feet. This reverse circulation drill program confirmed previous results and also expanded certain mineralized areas. In May 2004 three core holes were drilled for a total of 2,155 feet. The total number of holes is now 256. Of these, 235 are reverse circulation drill holes and 21 are diamond drill holes. Detailed check assays were obtained both for core samples and for reverse drill samples that initially assayed greater than 0.3 gm/tonne. Chemex Labs, Vancouver, Canada, performed both the initial and the check assays, and the check assays supported the initial assay results.

In August 2002, we retained SRK s (a global engineering company) Denver, Colorado office to conduct a scoping engineering study for the El Chanate Project. This study was completed in October 2002 and concluded that the El Chanate Project deserved additional work and that the property contained important gold mineralization. The base case for this study assumed a gold price of \$320.

Following SRK s positive conclusion, in February 2003, we retained M3 Engineering of Tucson, Arizona to begin work on a feasibility study (the Study ). M3 completed the study in August 2003. Based on 253 drill holes and more than 22,000 gold assays, the study provides details for an open pit gold mine. The Study indicates that at a gold price of \$325, the initial open pit project contains proven and probable reserves of 358,000 ounces of gold contained within 13.5 million metric tonnes of ore with an average grade of 0.827 grams/tonne. It estimated that the mine could recover approximately 48,000 - 50,000 ounces of gold per year over a five year mine life.

The study assumes a production rate of 2.6 million tonnes of ore per year or 7,500 tonnes per day, operating at 345 days per year. The processing plan for this open pit heap leach gold project calls for crushing the ore to 100% minus 3/8 inch. Carbon columns will be used to recover the gold.

Pursuant to the Study, based on the current reserve calculations, the mine life is estimated to be 62 months. The study forecasts initial capital costs of \$13.8 million, which includes \$2.1 million of working capital. Average initial annual production is planned at approximately 48,000 to 50,000 ounces per year at an average operating cash cost of \$229 per ounce. This cash cost may decrease as the production rate increases. Total costs will vary depending upon the price of gold (due to the nature of underlying payment obligations to the original owner of the property); they are estimated to range between \$292 per ounce at a gold price of \$310 per ounce and \$299 per ounce at a gold price of \$370 per ounce. We will be working on measures to attempt to reduce costs going forward. Reserves and production rates are based on a gold price of \$325 per ounce, which is the Base Case of the Study. Between January 1, 2004 and December 30, 2004, the fixed price for gold on the London Exchange has fluctuated between \$373 and \$455 per ounce. Between January 1, 2005 and February 28, 2005, the fixed price for gold on the London Exchange has fluctuated between \$411.10 and \$436.65 per ounce.

Management believes that the capital costs to establish a surface, heap leach mining operation at El Chanate may approximate \$15.8 million. We anticipate that the requisite funds will be available from the net proceeds of our February 2005 private placement and the potential project finance facility of up to

US\$10 million. To the extent that additional funds are required, we intend to raise such funds through bank financing, the sale of our securities, the sale of a royalty interest in the future production from the Chanate properties and/or joint venturing with one or more strategic partners. See Risk Factors *We lack operating cash flow and rely on external funding sources. If we are unable to continue to obtain needed capital from outside sources until we are able to generate positive cash flow from operations, we will be forced to reduce or curtail our operations* and *Management's Discussion and Analysis of Financial Condition and Results of Operations; Results of Operations*.

Management believes the El Chanate project will benefit substantially from rising gold prices, which are currently well above \$400 per ounce. Mineralized material previously below operating cut-off gold grades could possibly become economic if future engineering studies support lowering the cutoff grade due to gold prices substantially above the \$325 per ounce used in the feasibility study to define the proven and probable reserves mentioned above. We are currently looking at equipment and processing techniques that may be capable of supporting higher production rates that may be justified due to rising gold prices.

In this regard, Metcon Research Inc. of Tucson, Arizona completed gold recovery studies on existing samples at fine grind sizes of 100 mesh, 150 mesh and 200 mesh. These studies were undertaken to determine whether extraction by fine grinding is economical given the increased price of gold. Generally, fine grinding, while more expensive, will achieve higher gold recoveries than the heap leach method recommended in the feasibility study. Metcon found that increasing amounts of gold were recovered at finer grind sizes. However in May 2004, M3, who conducted the feasibility study, reported that at El Chanate, heap leaching remains the most economical and optimal method of extracting gold at current prices.

In May 2004, three core holes were drilled at El Chanate to define gold grades, to obtain metallurgical samples from siltstone hosted ores, and to evaluate previous deep drilling results by Anglo Gold in the Los Dos Virgens Zone. Two of the core holes tested and confirmed the presence of gold in the deep Los Dos Virgens Zone that lies below the level of the planned open pit. This zone was previously identified by Anglo Gold's reverse circulation drilling and, with increasing gold prices, we are analyzing with core drilling the conditions that might allow an enlarged open pit to include ores from the Los Dos Virgens zone. The third core hole was drilled in the main high grade part of the deposit to obtain ore samples for metallurgical column testing from siltstone host rocks.

Metallurgical column test studies are now underway at Metcon's laboratories in Tucson Arizona to determine the optimal conditions at El Chanate for recovering gold from within siltstone host rocks using heap leach technology. The siltstone drill core samples are being tested at crush sizes of 100 percent 3/8 inch and 100 percent 1/4 inch, and these column tests are showing encouraging recovery rates. If these gold recoveries are within an economic range and with rising gold prices, management believes the ore reserves may be increased beyond the level currently published in the feasibility study. While we are optimistic about the results, there can be no assurance that improved gold recoveries will result in an increase in reserves.

In January 2004, we received permits from the Mexican Department of Environmental Affairs and Natural Resources necessary to begin construction of the El Chanate project. These permits also cover the operation of a heap-leach gold recovery system.

*Our Current Plans for the El Chanate Project*

Our current plans over the next 12 months include:

*Environmental and Permitting.* We already own the surface over the deposit. We will need to obtain water permits for processing ores, electrical permits to purchase or produce our own power and use of soil permits. We also need to establish reclamation plans. These permits were recently completed and filed with the proper government agencies. Other permits, including, mining and processing permits, have been issued.

*Site Construction.* We plan to construct a surface gold mine and facility capable of producing about 2.6 million metric tons per year of ore and about 48,000 to 50,000 ounces of gold per year, over a five year mine life, at a targeted cash cost of less than \$230 per ounce. Current plans include the construction of a road suitable for heavy equipment to travel to the mine site. Assuming final negotiations are successful with property owners, road construction could begin in late March 2005. Water rights have been identified and negotiations are underway for acquiring the necessary amounts of water required for by the project. New sources of crushing equipment have been identified and bids from possible crushing contractors are being evaluated. We are following the El Chanate Feasibility Study, which contains a mining rate of 7,500 metric tonnes per day of ore, however we are in the process of commissioning M3 to begin studying the feasibility of expanding these production rates. We are interviewing firms to provide contract mining services for the El Chanate project.

*Acquisition of El Chanate concessions*

In June 2001, we 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. Pursuant to the terms of the agreement, on December 15, 2001, we made a \$50,000 payment to AngloGold. AngloGold will be 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 a 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, we could be subjected to and would be responsible for any withholding taxes assessed on such payments.

Under the terms of the agreement, we have 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 El Chanate concessions at the time of option exercise). That option is exercisable over a 180 day period commencing at such time as we notify AngloGold that we have made a good faith determination that we have gold-bearing ore deposits on any one of the identified groups of El Chanate concessions, when aggregated with any ore that we have 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 our project costs on the properties during the period commencing on December 15, 2000 and ending on the date of such notice. Based on current information available to us, we do not believe a deposit of the size that would trigger these back-in rights is likely to be identified at El Chanate.

In February 2002, Minera Santa Rita S. de R.L. de C.V., one of our wholly-owned Mexican affiliates ( Santa Rita ), now the lessee of the El Chanate concessions, as discussed below, entered into a joint venture agreement with Grupo Minero FG S.A. de C.V. to explore, evaluate and develop the El Chanate



concessions. Grupo Minero FG S.A. de C.V., referred to as FG, is a private Mexican company that owns and operates the La Colorada open-pit gold mine outside of Hermosillo in Sonora, Mexico.

Effective March 31, 2004, the joint venture agreement with FG was terminated. In consideration of FG's contributions to the venture of \$457,455, we issued to FG 2,000,000 restricted shares of our common stock valued at \$800,000 and Santa Rita issued to FG a participation certificate entitling FG to receive five percent of the Santa Rita's annual dividends, when declared. The participation certificate also gives FG the right to participate, but not to vote, in the meetings of Santa Rita's Board of Managers, Technical Committee and Partners. Santa Rita also received a right of first refusal to carry out the works and render construction services required to effectuate the El Chanate project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services.

FG has assigned or otherwise transferred to Santa Rita all permits, licenses, consents and authorizations (collectively, authorizations) for which FG had obtained in its name in connection with the development of the El Chanate project to the extent that the authorizations are assignable. To the extent that the authorizations are not assignable or otherwise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued or re-granted in Santa Rita's name. The foregoing has been completed.

In March 2002, we and our wholly-owned subsidiary, Leadville Mining & Milling Holding Corporation ( Holding) sold all of the issued and outstanding shares of stock of Minera Chanate to an unaffiliated party for a purchase price of US\$2,131,616, payable in three installments. We received the final installment on December 9, 2002. In connection with the sale of Minera Chanate stock, we incurred approximately \$174,000 in commissions.

During March 2002, prior to the sale of Minera Chanate and pursuant to the FG joint venture agreement, Minera Chanate, in a series of transactions, sold all of its surface land and mining claims to Oro de Altar S. de R. L. de C.V. ( Ora), another of our wholly-owned subsidiaries. Ora, in turn, leased the foregoing land and mining claims to Minera Santa Rita.

#### **Leadville, Colorado Properties**

We own or lease a number of claims and properties, all of which are located in California Mining District, Lake County, Colorado, Township 9 South, Range 79. For the past three years, activity at our Leadville, Colorado properties consisted primarily of mine maintenance. Primarily as a result of our focus on El Chanate, we ceased activities in Leadville, Colorado. During the year ended July 31, 2002, we performed a review of our Leadville mine and mill improvements and determined that an impairment loss should be realized. Therefore, we significantly reduced the carrying value of certain assets relating to our Leadville, Colorado assets by \$999,445. During the year ending July 31, 2004, we again performed a review of our Colorado mine and mill improvements and determined that an additional impairment loss should be recognized. Accordingly, we further reduced the net carrying value to \$0, recognizing an additional loss of \$300,000. See *Management's Discussion and Analysis of Financial Condition and Results of Operations; Results of Operations*.

#### **Competition**

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. Our lack of revenues and limited financial resources further hinder our ability to acquire additional mineral properties.

#### **Human Resources**

As of March 3, 2005, we had six full time employees and/or consultants.

#### **Facilities**

Our executive office is located at 76 Beaver Street, 26<sup>th</sup> Floor, New York, New York 10005. Telephone Number 212-344-2785. We lease the offices from an unaffiliated party. The lease expires on August 31, 2007. Annual rent for the lease year ended August 31, 2005 is approximately 54,000 plus utilities and other occupancy expenses.

We also maintain an office at 418 Harrison Avenue, Suite 2, Leadville, CO 80461 pursuant to an oral month-to-month arrangement. The office is approximately 400 square feet and rent is \$365 per month.

#### **Legal Proceedings**

We are not presently a party to any material litigation.

### **MANAGEMENT**

The following sets forth biographical information about each of our directors and executive officers as of the date of this prospectus:

| <b>Name</b>          | <b>Age</b> | <b>Position</b>   |
|----------------------|------------|---|
| Gifford A. Dieterle  | 73         | President, Treasurer, Chief Financial Officer & Chairman of the Board |
| Robert Roningen      | 70         | Director, Senior Vice President and Secretary                         |
| Jack V. Everett      | 83         | Director, Vice President Exploration                                  |
| Roger A. Newell      | 62         | Director, Vice President Development                                  |
| Jeffrey W. Pritchard | 46         | Director, Vice President Investor Relations                           |
| J. Scott Hazlitt     | 52         | Vice President Mine Development                                       |

Directors are elected at the meeting of stockholders called for that purpose and hold office until the next stockholders meeting called for that purpose or until their resignation or death. Officers of the corporation are elected by the directors at meetings called by the directors for its purpose.

GIFFORD A. DIETERLE, President, Treasurer, Chief Financial Officer and Chairman of the Board of Directors. Mr. Dieterle was appointed President in September 1997. He has been our Chairman, Treasurer and Chief Financial Officer since 1981. His highest educational degree is a M.S. in Geology obtained from New York University. From 1977 until July 1993, he was Chairman, Treasurer, and

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Executive Vice-President of Franklin Consolidated Mining Company. From 1965 to 1987, he was lecturer in geology at the City University of N.Y. (Hunter Division). Mr. Dieterle has been Secretary-Treasurer of South American Minerals, Inc. since 1997 and a director of that company since 1996.

ROBERT RONINGEN, Senior Vice President, Secretary and Director, has been engaged in the practice of law as a sole practitioner and is a self-employed consultant geophysicist in Duluth, Minnesota. From 1988 to August 1993, he was an officer and director of Franklin Consolidated Mining Company, Inc. He graduated from the University of Minnesota in 1957 with a B.A. in geology and in 1962 with a degree in Law.

JACK V. EVERETT, Vice President - Exploration and Director, has been a consulting mining geologist since 1971, with expertise in all phases of exploration for base and precious metals. Following his 1947 graduation from Michigan State University, he was District Geologist for Pickands Mather & Company on the Cuyuna Iron Range, Minnesota. From 1951 to 1970, he was Chief Geologist and Exploration Manager for W.S. Moore Company, Duluth, Minnesota an iron mining company with gold and base metal sulfide holdings in the U.S. and Canada.

ROGER A. NEWELL, Vice President - Development and Director, has been in the mining industry for over 30 years. From 1974 through 1977, he was a geologist with Kennecott Copper Corporation. From 1977 through 1989, he served as Exploration Manager/Senior Geologist for the Newmont Mining Corporation and, from 1989 through 1995, was the Exploration Manager for Gold Fields Mining Company. He was Vice President Development, for Western Exploration Company from 1997 through 2000. He has been self-employed as a geologist since 2001. His highest educational degree is a Ph.D. in mineral exploration from Stanford University.

JEFFREY W. PRITCHARD, Vice President - Investor Relations and Director, has worked for us since 1996. He has been in the marketing/public relations field since receiving a Bachelor's degree from the State University of New York in 1979. Jeff has served as the Director of Marketing for the New Jersey Devils (1987-1990) and as the Director of Sales for the New York Islanders (1985-1987). He also was an Executive Vice President with Long Island based Performance Network, a marketing and publishing concern from 1990 through 1995.

J. SCOTT HAZLITT, Vice President - Mine Operations, has been a geologist since 1974. He has been providing geological consulting services to us since November 1999. From 1995 to 1999, he was Chief Geologist for Getchell Gold Corp. Mr. Hazlitt received a B.Sc. degree in Geology from Fort Lewis College in Durango, Colorado in 1974 and a M.Sc. degree in Economic Geology from Colorado State University in Fort Collins, Colorado in 1985.

### **Compensation of Directors**

Directors are not compensated for acting in their capacity as Directors. Directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties.

## EXECUTIVE COMPENSATION

The following table shows all the cash compensation paid or to be paid by us or any of its subsidiaries, as well as certain other compensation paid or accrued, during the fiscal years indicated, to the Chief Executive Officer for such period in all capacities in which he served. Information concerning the Chief Executive Officer relates to Gifford Dieterle.

## SUMMARY COMPENSATION TABLE

| (a)                         | Annual Compensation |         |            |                                | Long-Term Compensation      |              |                   |                            |
|-----------------------------|---------------------|---------|------------|--------------------------------|-----------------------------|--------------|-------------------|----------------------------|
|                             | (b)                 | (c)     | (d)        | (e)                            | Awards                      |              | Payouts           |                            |
|                             |                     |         |            |                                | (f)                         | (g)          | (h)               | (i)                        |
| Name and Principal Position | Year                | Salary  | Bonus (\$) | Other Annual Compensation (\$) | Restricted Stock Award (\$) | Options SARs | LTIP Payouts (\$) | All Other Compensation (i) |
| Gifford A. Dieterle         | 2004                | 104,000 | 20,000     | -0-                            | -0-                         | 250,000      | -0-               | -0-                        |
| Chief Executive Officer     | 2003                | 70,856  | 23,400     | -0-                            | -0-                         | -0-          | -0-               | -0-                        |
|                             | 2002                | 70,642  | -0-        | -0-                            | -0-                         | -0-          | -0-               | -0-                        |

The following table sets forth information with respect to our Executive Officers concerning the grants of options and Stock Appreciation Rights ( SAR ) during the past fiscal year:

OPTION/SAR GRANTS IN LAST FISCAL YEAR  
Individual Grants

| (a)                  | (b)                  | (c)  | (d)                            | (e)             |
|----------------------|----------------------|--|--------------------------------|-----------------|
| Name                 | Options/SARs Granted | Percent of Total Options/SARs Granted to Employee in Fiscal Year | Exercise or Base Price (\$/SH) | Expiration Date |
| Gifford A. Dieterle  | 250,000              | 13.8%  | \$.21                          | 3-16-07         |
| Rogert N. Roningen   | 250,000              | 13.8%  | \$.21                          | 3-16-07         |
| Jack V. Everett      | 250,000              | 13.8%  | \$.21                          | 3-16-07         |
| Roger A. Newell      | 250,000              | 13.8%  | \$.21                          | 3-16-07         |
| Jeffrey W. Pritchard | 250,000              | 13.8%  | \$.21                          | 3-16-07         |

The following table sets forth information with respect to our Executive Officers concerning exercise of options during the last fiscal year and unexercised options and SARs held as of the end of the fiscal year:

## Aggregated Option/SAR Exercises and Fiscal Year-End Option/SAR

| (a)  | (b)                             | (c)            | (d)   | (e)  |
|------|---------------------------------|----------------|---|--|
| Name | Shares Acquired on Exercise (#) | Value Realized | Number of Unexercised Options/SARs at FY-End(#)<br>Exercisable/ | Value of Unexercised In-the-Money Option/SARs at FY-End(#) |

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| (a)                  | (b)     | (c)      | (d)<br>Unexercisable | (e)<br>Exercisable/<br>Unexercisable |
|----------------------|---------|----------|----------------------|--------------------------------------|
| Gifford A. Dieterle  |         |          | 1,500,000            | \$ 330,000                           |
| Robert N. Roningen   |         |          | 750,000              | \$ 165,000                           |
| Jack V. Everett      | 300,000 | \$77,000 | 250,000              | \$ 55,000                            |
| Jeffrey W. Pritchard |         |          | 622,727              | \$ 136,400                           |
| Roger A. Newell      | 272,727 | 79,127   | 977,273              | \$ 215,000                           |
| Scott Hazlitt        |         |          | 725,000              | \$ 159,500                           |

**Employment Agreements**

For information on compensation arrangements with our executive officers, please see *Certain Relationships and Related Transactions* below.

**PRINCIPAL STOCKHOLDERS**

The following table sets forth as of March 3, 2005, the number and percentage of outstanding shares of common stock beneficially owned by:

Each person, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of our issued and outstanding common stock;

each of our directors and the Named Executives; and

all of our officers and directors as a group.

This table is based upon information supplied by Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission, and information obtained from our directors and named executives. For purposes of this table, a person or group of persons is deemed to have beneficial ownership of any shares of common stock which such person has the right to acquire within 60 days of March 3, 2005. For purposes of computing the percentage of outstanding shares of common stock held by each person or group of persons named in the table, any security which such person or persons has or have the right to acquire within such date is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, we believe, based on information supplied by such persons, that the persons named in this table have sole voting and investment power with respect to all shares common stock which they beneficially own. As of March 3, 2005, 89,751,939 shares of our common stock were outstanding. Unless otherwise noted, the address of each of the principal stockholders is care of us at 76 Beaver Street, 26<sup>th</sup> floor, New York, NY 10005.

| <b>Name and<br/>Address of<br/>Beneficial<br/>Owner</b>              | <b>Amount &amp; Nature<br/>of Beneficial<br/>Ownership</b> | <b>Approximate<br/>Percentage(1)(2)</b> |
|--|--|---|
| Gifford A. Dieterle*   | 2,650,000(2)   | 2.9%                                    |
| Jack Everett*<br>534 Observatory Drive<br>Colorado Springs, CO 80904 | 1,250,000(2)   | 1.4%                                    |
| Robert Roningen*<br>2955 Strand Road<br>Duluth, MN 55804             | 2,200,000(2)(3)  | 2.4%                                    |
| Jeffrey W. Pritchard*  | 956,354(2)   | 1.1%                                    |
| Roger A Newell*<br>1781 South Larkspur Drive<br>Golden, CO 80401     | 1,477,273(2)   | 1.6%                                    |

| Name and Address of Beneficial Owner                               | Amount & Nature of Beneficial Ownership | Approximate Percentage(1)(2) |
|--|---|------------------------------|
| Scott Hazlitt*<br>949 F Street<br>Salida. CO 81201                 | 1,025,000(2)                            | 1.1%                         |
| RAB Special Situations LP<br>1 Adam Street<br>London, WC2N 6LE, UK | 16,000,000(4)                           | 9.9%                         |
| SPGP<br>17, Avenue Matignon<br>75008 Paris, France                 | 19,200,000(5)                           | 19.3%                        |
| All Officers and Directors as a Group (6)                          | 9,558,627(2)(3)                         | 10.1%                        |

\* Officer and/or Director of Capital Gold.

- (1) Based upon 89,751,939 shares issued and outstanding as of March 3, 2005.
- (2) For Messrs. Dieterle, Everett, Roningen, Pritchard, Newell and Hazlitt, includes, respectively, 1,500,000 shares, 250,000 shares, 750,000 shares, 622,727 shares, 977,273 shares and 325,000 shares issuable upon exercise of options and/or warrants.
- (3) Includes shares owned by Mr. Roningen's wife and children.
- (4) The shares are held of record by Credit Suisse First Boston LLC. Includes shares issuable upon exercise of warrants to purchase an aggregate of 9,600,000 shares. The warrants are not exercisable if, as a result of an exercise, the holder would then become a ten percent beneficial owner of our common stock, as defined in Rule 16a-2 under the Securities Exchange Act of 1934. We have been advised that William P. Richards is the Fund Manager for RAB Special Situations LP, with dispositive and voting power over the shares held by RAB Special Situations LP. Mr. Richards disclaims beneficial ownership of the shares owned by RAB Special Situations LP.
- (5) Includes shares issuable upon exercise of warrants to purchase an aggregate of 9,600,000 shares. We have been advised that Guy-Philippe Bertin, Fund Manager, is a natural person with voting and investment control over shares of our common stock beneficially owned by SPGP

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the fiscal years ended July 31, 2004 and 2003, we paid Roger Newell \$62,000 and \$60,000, respectively, for professional geologist services rendered to us plus expenses. In addition, during the fiscal year ended July 31, 2003, we paid Mr. Newell a bonus of \$35,000. During the fiscal years ended July 31, 2004 and 2003, we paid Scott Hazlitt \$96,000 per year, for professional geologist and mine management services rendered to us, plus expenses. In addition, during the fiscal year ended July 31, 2003, we paid Mr. Hazlitt a bonus of \$10,000. During the fiscal years ended July 31, 2004 and 2003, we paid Jack Everett consulting fees of \$47,600 and \$42,000, respectively. In addition, during the fiscal year ended July 31, 2003, we paid Mr. Everett a bonus of \$35,000. During the fiscal year ended July 31,

2004 and 2003, we paid Robert Roningen legal fees of \$6,900 and \$2,300, respectively. In addition, during the fiscal year ended July 31, 2003, we paid Mr. Roningen a bonus of \$10,000.

In May 2004, we issued 250,000 common stock options each to Messrs. Dieterle, Roningen, Pritchard, Everett and Newell exercisable at \$.22 per share expiring on May 25, 2007.

At July 31, 2003 we had outstanding salary advances of \$10,020 to an officer/director. Subsequent to July 31, 2003, we made additional salary advances to this officer of \$9,000. The officer agreed to transfer his net paychecks to us until such time as all salary advances have been exhausted. All such advances were subsequently repaid.

On October 29, 2002, we issued to Scott Hazlitt options to purchase 400,000 shares that expire on March 15, 2005 and are exercisable at \$.22 per share, and options to purchase 300,000 shares that expire on February 1, 2007 and are exercisable at \$.22 per share. The exercise prices of these options were subsequently reduced to \$.05. The options to purchase 400,000 shares were exercised in February 2005

### SELLING STOCKHOLDERS

The following table provides information regarding the selling stockholders and the number of shares of common stock they are offering, which includes shares issuable upon exercise of options and warrants held by the selling stockholders. Under the rules of the SEC, beneficial ownership includes shares over which the indicated beneficial owner exercises voting or investment power. Shares of common stock subject to warrants and options that are currently exercisable or will become exercisable within 60 days are deemed outstanding for computing the percentage ownership of the person holding the options but are not deemed outstanding for computing the percentage ownership of any other person. Notwithstanding the foregoing, certain of the selling stockholders elected, at the time of the initial issuance of the warrants, to include provisions in the warrant, which provide that the warrants may not be exercised if such action would result in the holder, together with its affiliates, beneficially owning more than 4.99% of our common stock. In addition, certain of the selling stockholders elected, at the time of the initial issuance of the warrants, to include provisions in the warrant, which provide that the warrants may not be exercised if such action would result in the holder, together with its affiliates, beneficially owning more than 9.99% of our common stock.

Unless otherwise indicated in the footnotes below, we believe that the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned. The information regarding shares beneficially owned after the offering assumes the sale of all shares offered by each of the selling stockholders. The percentage ownership data is based on 63,690,644 shares of our common stock issued and outstanding as of March 3, 2005.

The shares of common stock covered by this prospectus may be sold by the selling stockholders, by those persons or entities to whom they transfer, donate, devise, pledge or distribute their shares or by other successors in interest. We are registering the shares of our common stock for resale by the selling stockholders defined below. The shares are being registered to permit public secondary trading of the shares, and the selling stockholders may offer the shares for resale from time to time. See *How The Shares May Be Distributed* below

The following table has been prepared based solely upon information furnished to us as of the date of this prospectus by the selling stockholders listed below. The selling stockholders identified below may have sold, transferred or otherwise disposed of, in transactions exempt from the registration requirements of the



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Securities Act, all or a portion of their shares since the date on which the information in the following table is presented.

None of the selling stockholder has had any position, office or other material relationship with us or any of our affiliates within the past three years, other than as disclosed in the footnotes to the table.

| <b>Selling Stockholder</b>  | <b>Common Stock<br/>Owned Prior<br/>To Offering</b> | <b>No. of Shares<br/>Being Offered</b> | <b>Common Stock<br/>Owned After<br/>The Offering</b> |
|---|---|--|--|
| Peter Alan Lloyd(1)   | 150,000(1)  | 150,000(1)                             |  |
| Terence Owen Lloyd(2)   | 400,000(2)  | 400,000(2)                             |  |
| SPGP(3)   | 19,200,000(3)                                       | 19,200,000(3)                          |  |
| Hargreave Hale(4)   | 160,000(4)  | 160,000(4)                             |  |
| RAB Special Situations LP(5)  | 16,000,000(5)                                       | 16,000,000(5)                          |  |
| NCL Smith & Williamson Ltd(6)   | 300,000(6)  | 300,000(6)                             |  |
| Galloway Ltd(7)   | 2,000,000(7)  | 2,000,000(7)                           |  |
| Willbro Nominees Ltd(8)   | 400,000(8)  | 400,000(8)                             |  |
| Excalibur Limited Partnership(9)  | 2,400,000(9)  | 2,400,000(9)                           |  |
| Tameem Auch(10)   | 160,000(10)   | 160,000(10)                            |  |
| Compagnie Internationale<br>de Participations Bancaires<br>et Financieres(11) | 1,600,000(11)                                       | 1,600,000(11)                          |  |
| Sook Hee Chang(12)  | 80,000(12)  | 80,000(12)                             |  |
| AGF Precious Metals Fund(13)  | 3,200,000(13)                                       | 3,200,000(13)                          |  |
| Caisse de Depot et Placement<br>du Quebec(14)                                 | 4,800,000(14)                                       | 4,800,000(14)                          |  |
| Minh-Thu Dao-Huy(15)  | 200,000(15)   | 200,000(15)                            |  |
| Michael White(16)   | 26,880(16)  | 26,880(16)                             |  |

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| Selling Stockholder         | Common Stock<br>Owned Prior<br>To Offering | No. of Shares<br>Being Offered | Common Stock<br>Owned After<br>The Offering |
|-----------------------------|--|--------------------------------|---|
| Neil McLoughlin(17)         | 163,128(17)                                | 163,128(17)                    |   |
| Jay Smith(18)               | 800,000(18)                                | 800,000(18)                    |   |
| Charles L. Stafford(19)     | 360,000(19)                                | 360,000(19)                    |   |
| Standard Bank of London(20) | 1,000,000(20)                              | 1,000,000(20)                  |   |
| IBK Capital Corp. (21)      | 2,702,000(21)                              | 2,702,000(21)                  |   |
| Gifford A. Dieterle(22)     | 2,650,000(23)                              | 1,500,000(22)                  | 1,150,000                                   |
| Robert Roningen(22)         | 2,200,000(24)                              | 750,000(22)                    | 1,450,000                                   |
| Jack V. Everett(22)         | 1,250,000(25)                              | 250,000(22)                    | 1,000,000                                   |
| Roger A. Newell(22)         | 1,477,273(26)                              | 977,273(22)                    | 500,000                                     |
| Jeffrey W. Pritchard(22)    | 956,354 (27)                               | 622,727(22)                    | 333,627                                     |
| J. Scott Hazlitt(22)        | 1,025,000(28)                              | 725,000                        | 300,000                                     |
| Josephine Scott             | 1,100,000(29)                              | 763,636                        | 336,364                                     |

- (1) Shares offered and owned includes 75,000 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (2) Shares offered and owned includes 200,000 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (3) Shares offered and owned includes 9,600,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified Guy-Philippe Bertin, Fund Manager, as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.
- (4) Shares offered and owned includes 80,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified \_\_\_\_\_ as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.\*\*
- (5) The shares are held of record by Credit Suisse First Boston LLC. Includes shares issuable upon exercise of warrants to purchase an aggregate of 9,600,000 shares. The warrants are not exercisable if, as a result of an exercise, the holder would then become a ten percent beneficial owner of our common stock, as defined in Rule 16a-2 under the Securities Exchange Act of 1934. We have been advised that William P. Richards is the Fund Manager for RAB Special Situations LP, with dispositive and voting power over the shares held by RAB Special Situations LP. Mr. Richards disclaims beneficial ownership of the shares owned by RAB Special Situations LP.

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- (6) The shares are held of record by NCL Investments Limited. Shares offered and owned includes 150,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified \_\_\_\_\_ as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.\*\*
- (7) Shares offered and owned includes 1,000,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified \_\_\_\_\_ as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.\*\*
- (8) Shares offered and owned includes 200,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified \_\_\_\_\_ as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.\*\*
- (9) Shares offered and owned includes 1,200,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified William Hechter, the president of the selling stockholder's general partner as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder. Mr. Hechter disclaims beneficial ownership of the shares offered.
- (10) The shares are held of record by Fitel Nominees Limited. Shares offered and owned includes 80,000 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (11) The shares are held of record by Fitel Nominees Limited. Shares offered and owned includes 800,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified Messrs. Nadhmi S. Auchi, Nasir Abid and Guy Glesener as natural persons with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.
- (12) Shares offered and owned includes 40,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has indicated that her husband, Paul Ensor, also exercises voting and investment control over shares of our common stock beneficially owned by the selling stockholder.

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- (13) The shares are held of record by Roytor & Co. Shares offered and owned includes 1,600,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder has identified \_\_\_\_\_ as a natural person with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.\*\*
- (14) The shares are held of record by Fiducie Desjardins. Includes shares issuable upon exercise of warrants to purchase an aggregate of 2,400,000 shares. The warrants are not exercisable if, as a result of an exercise, the holder would then beneficially own in excess of 4.99% of our common stock, as defined in Rule 13d-3 under the Securities Exchange Act of 1934. We have been advised that \_\_\_\_\_ has dispositive and voting power over the shares held by Caisse de Depot et Placement du Quebec.\*\*
- (15) Shares offered and owned includes 100,000 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder is an officer of IBK Capital Corp., the placement agent.
- (16) Shares offered and owned includes 13,440 shares issuable upon exercise of warrants issued in the February 2005 private placement. The selling stockholder is an officer of IBK Capital Corp., the placement agent.
- (17) Shares offered and owned includes 81,564 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (18) Shares offered and owned includes 400,000 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (19) Shares offered and owned includes 180,000 shares issuable upon exercise of warrants issued in the February 2005 private placement.
- (20) Shares offered represents 1,000,000 shares issuable upon exercise of warrants. The selling stockholder has identified its directors and senior management as a natural persons with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.
- (21) Shares offered and owned represent shares issuable upon exercise of placement agent warrants issued with regard to the February 2005 private placement. The selling stockholder was the placement agent for the February 2005 private placement. The selling stockholder has identified William F. White, Minh-Thu Dao-Huy and Michael F. White as natural persons with voting and investment control over shares of our common stock beneficially owned by the selling stockholder.
- (22) The selling stockholder is an officer and/or director of Capital Gold Corporation. Except for J. Scott Hazlitt, only shares issuable upon exercise of options are being offered.
- (23) Shares owned includes 1,500,000 shares issuable upon exercise of options.
- (24) Shares owned includes 750,000 shares issuable upon exercise of options. Includes shares owned by Mr. Roningen s wife and children
- (25) Shares owned includes 250,000 shares issuable upon exercise of options.

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- (26) Shares owned includes 977,273 shares issuable upon exercise of options.
- (27) Shares owned includes 622,727 shares issuable upon exercise of options.
- (28) Shares owned and offered includes 325,000 shares issuable upon exercise of options.
- (29) Shares owned includes 763,636 shares issuable upon exercise of options.

\*\* Information to be provided by amendment.

### HOW THE SHARES MAY BE DISTRIBUTED

The selling stockholders and any of their pledgees, donees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales that are not violations of the laws and regulations of any state or the United States;

broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The compensation paid to a particular broker-dealer may be less than or in excess of customary commissions.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the Shares owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell shares of common stock from time to time under this prospectus, or

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under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

Upon our being notified in writing by a selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of common stock through a block trade, special offering, exchange distribution or secondary distribution or a purchase by a broker or dealer, a supplement to this prospectus will be filed, if required, pursuant to Rule 424(b) under the Securities Act, disclosing (i) the name of each such selling stockholder and of the participating broker-dealer(s), (ii) the number of shares involved, (iii) the price at which such the shares of common stock were sold, (iv) the commissions paid or discounts or concessions allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, and (vi) other facts material to the transaction.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be underwriters within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling stockholders has represented and warranted to us that it does not have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

We have advised the selling stockholders that they are required to comply with Regulation M promulgated under the Securities and Exchange Act during such time as they may be engaged in a distribution of the shares. With certain exceptions, Regulation M precludes the selling stockholder, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered hereby in this prospectus.

We are required to pay all fees and expenses incident to the registration of the shares. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers, and controlling persons, we have been advised that in the opinion of the SEC this indemnification is against public policy as expressed in the Securities Act and is therefore, unenforceable.

Under the securities laws of certain states, the shares may be sold in those states only through registered or licensed broker-dealers. In addition, the shares may not be sold unless the shares have been registered or qualified for sale in the relevant state or unless the shares qualify for an exemption from registration or qualification

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### PENNY STOCK

Our common stock is a penny stock as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission because it is selling at a price below five dollars per share. In the future, if we are unable to list our common stock on NASDAQ or a national securities exchange or the per share sale price is not at least \$5.00, our common stock may continue to be deemed to be a penny stock. Penny stocks are stocks:

- i. with a price of less than five dollars per share;
- ii. that are not traded on a recognized national exchange;  
whose prices are not quoted on the NASDAQ automated quotation system; or
- iii. of issuers with net tangible assets equal to or less than  
-\$2,000,000 if the issuer has been in continuous operation for at least three years; or  
-\$5,000,000 if in continuous operation for less than three years, or  
of issuers with average revenues of less than \$6,000,000 for the last three years.

Section 15(g) of the Exchange Act, and Rule 15g-2 of the Securities and Exchange Commission, require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Moreover, Rule 15g-9 of the Securities and Exchange Commission requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer:

- i. to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;
- ii. to determine reasonably, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;
- iii. to provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and
- iv. to receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

### DESCRIPTION OF SECURITIES BEING REGISTERED

The following section does not purport to be complete and is qualified in all respects by reference to the detailed provisions of our articles of incorporation, as amended, and our by-laws, copies of which have been filed with the Securities and Exchange Commission.

Our authorized capital stock consist of: (i) 150,000,000 shares of common stock, \$.001 par value. 89,751,939 shares of common stock were issued and outstanding as of the date of this prospectus.

#### Common Stock

Shares of our common stock are entitled to one vote per share, either in person or by proxy, on all matters that may be voted upon by the owners of our shares at meetings of our stockholders. There is no provision for cumulative voting with respect to the election of directors by the holders of common stock.





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Therefore, the holder of more than 50% of our shares of outstanding common stock can, if they choose to do so, elect all of our directors. In this event, the holders of the remaining shares of common stock will not be able to elect any directors.

The holders of common stock:

have equal rights to dividends from funds legally available therefore, when and if declared by our board of directors;

are entitled to share ratably in all of our assets available for distribution to holders of common stock upon liquidation, dissolution or winding up of our affairs; and

do not have preemptive rights, conversion rights, or redemption of sinking fund provisions.

The outstanding shares of our common stock are duly authorized, validly issued, fully paid and nonassessable.

### **Transfer Agent And Registrar**

The transfer agent and registrar for our common stock and warrants is American Stock Transfer and Trust Company, 59 Maiden Lane, Plaza Level, New York, NY 10038.

### **LEGAL MATTERS**

The validity of the common stock offered in this prospectus has been passed upon for us by Richard Feiner, Esq., 381 Park Avenue South, Suite 1601, New York, New York 10016. Mr. Feiner owns options to purchase an aggregate of 200,000 shares of our common stock.

### **EXPERTS**

Our consolidated financial statements included in this prospectus have been audited by Wolinetz, Lafazan & Company, P.C., independent registered public accountants, to the extent and for the periods set forth in their report appearing elsewhere herein, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

### **WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the Securities and Exchange Commission a registration statement (which contains this prospectus) on Form SB-2 under the Securities Act of 1933. The registration statement relates to the shares offered by the selling stockholders. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Please refer to the registration statement and its exhibits and schedules for further information with respect to us, the common stock, the debentures and the warrants. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete and, in each instance, we refer you to the copy of that contract or document filed as an exhibit to the Registration Statement. You may read and obtain a copy of the registration statement and its exhibits and schedules from the SEC, as described below.

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file at the Securities and Exchange

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Commission's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference rooms. Many of our Securities and Exchange Commission filings are also available to the public from the Securities and Exchange Commission's Website at <http://www.sec.gov>.

### GLOSSARY

|  |  |
|--|--|
| Andesites:   | Rocks of volcanic origin   |
| Caliche:   | Sediment cemented by calcium carbonate near surface.   |
| Diorite:   | Igneous Rock   |
| Dikes:   | Tabular, vertical bodies of igneous rock.  |
| Fissility:   | Shattered, broken nature of rock.  |
| Fracture<br>Foliations:                                | Fracture pattern in rock, parallel orientation, resulting from pressure.   |
| Heap Leaching:   | Broken and crushed ore on a pile subjected to dissolution of metals by leach solution.   |
| Microporphyritic                                       |  |
| Latite:  | Extremely fine grained siliceous igneous rock with a distribution of larger crystals within.   |
| Mudstone:  | Sedimentary bed composed primarily of fine grained material such as clay and silt.   |
| Mineral Deposit or<br>Mineralized<br>Material:         | A mineralized rock mass which has been intersected by sufficient closely spaced drill holes and or underground sampling to support sufficient tonnage and average grade of metal(s) to warrant further exploration-development work. This deposit does not qualify as a commercially mineable ore body (Reserves), as prescribed under Commission standards, until a final and comprehensive economic, technical and legal feasibility study based upon the test results is concluded. |
| Patented Claim:  | Unpatented claim that is now privately owned mineral land after a grant from the federal government.   |
| Pyritized:   | Partly replaced by the mineral pyrite.   |
| Reverse Circulation<br>Drilling (or R.C.<br>Drilling): | Type of drilling using air to recover cuttings for sampling through the middle of the drilling rods rather than the outside of the drill rods, resulting in less contamination of the sampled interval.  |
| Sandstone Lenses<br>And Thin Lime-<br>stone Interbeds: | Thin beds of limestone mixed with thin beds of sandstone.  |
| Siltstone:   | A sedimentary rock composed of clay and silt sized particles.  |
| Silicified:  | Partly replaced by silica.   |

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- Sills: Tabular, horizontal bodies of igneous rock.
- Surface Mine: Surface mining by way of an open pit without shafts or underground working.
- Unpatented Claim: Mineral land staked on public lands open to appropriation by mineral location, subject to the paramount title of the federal government and maintained by timely payment of an annual fee.

*REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM*

To The Board of Directors and Stockholders of  
Capital Gold Corporation  
New York, New York

We have audited the accompanying consolidated balance sheet of Capital Gold Corporation and Subsidiaries (A Development Stage Enterprise) ( the Company ) as of July 31, 2004, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended July 31, 2004 and for the period September 17, 1982 (Inception) to July 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Gold Corporation and Subsidiaries as of July 31, 2004 and the consolidated results of their operations and cash flows for each of the two years in the period ended July 31, 2004 and for the period September 17, 1982 (Inception) to July 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is a development stage enterprise whose operations have generated recurring losses and cash flow deficiencies from its inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are described in Note 16. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York  
October 22, 2004

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*CONSOLIDATED BALANCE SHEET*

ASSETS

|                            | October 31, 2004 | July 31, 2004 |
|----------------------------|------------------|---------------|
|                            | (Unaudited)      |               |
| Current Assets:            |                  |               |
| Cash and Cash Equivalents  | \$ 112,878       | \$ 208,443    |
| Loans Receivable Affiliate | 27,753           | 27,848        |
| Loans Receivable Others    | 1,965            | 2,065         |
| Prepaid Expenses           | 6,843            | 8,494         |
| Marketable Securities      | 175,000          | 110,000       |
| Other Current Assets       | 24,172           | 30,248        |
|                            | 348,611          | 387,098       |
| <br>                       |                  |               |
| Mining Concessions         | 44,780           | 44,780        |
| <br>                       |                  |               |
| Other Assets:              |                  |               |
| Other Investments          | 9,983            | 9,890         |
| Mining Reclamation Bonds   | 35,550           | 35,550        |
| Security Deposits          | 8,435            | 8,435         |
|                            | 53,968           | 53,875        |
| <br>                       |                  |               |
| Total Assets               | \$ 447,359       | \$ 485,753    |

*LIABILITIES AND STOCKHOLDERS EQUITY*

|   |              |              |
|---|--------------|--------------|
| Current Liabilities:                          |              |              |
| Accounts Payable                              | \$ 79,435    | \$ 88,086    |
| Accrued Expenses                              | 115,452      | 116,073      |
|   | 194,887      | 204,159      |
| <br>  |              |              |
| Commitments and Contingencies                 |              |              |
| <br>  |              |              |
| Stockholders Equity:                          |              |              |
| Common Stock, Par Value \$.001 Per Share;     |              |              |
| Authorized 150,000,000 shares; Issued and     |              |              |
| Outstanding 60,107,061 Shares at October 31,  | 60,107       | 57,769       |
| 2004 and 57,769,156 Shares at July 31, 2004   |              |              |
| Additional Paid-In Capital                    | 24,966,966   | 24,713,215   |
| Deficit Accumulated in the Development Stage  | (24,934,224) | (24,578,129) |
| Accumulated Other Comprehensive Income (Loss) | 159,623      | 88,739       |
|   | 252,472      | 281,594      |
| <br>  |              |              |
| Total Stockholders Equity                     | 252,472      | 281,594      |

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|   |    |                |    |                |
|---|----|----------------|----|----------------|
| Total Liabilities and Stockholders Equity | \$ | <u>447,359</u> | \$ | <u>485,753</u> |
|---|----|----------------|----|----------------|

The accompanying notes are an integral part of the financial statements

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF OPERATIONS**

|   | <b>For the Three Months Ended</b> |                    | <b>For The Year Ended</b> |                | <b>For The</b>     |
|---|-----------------------------------|--------------------|---------------------------|----------------|--------------------|
|   | <b>October 31,</b>                |                    | <b>July 31,</b>           |                | <b>Period</b>      |
|   | <b>2004</b>                       | <b>2003</b>        | <b>2004</b>               | <b>2003</b>    | <b>September</b>   |
|   | <b>(Unaudited)</b>                | <b>(Unaudited)</b> |                           |                | <b>17,1982</b>     |
|   |                                   |                    |                           |                | <b>(Inception)</b> |
|   |                                   |                    |                           |                | <b>To</b>          |
|   |                                   |                    |                           |                | <b>October 31,</b> |
|   |                                   |                    |                           |                | <b>2004</b>        |
|   |                                   |                    |                           |                | <b>(Unaudited)</b> |
| Revenues  | \$                                | \$                 | \$                        | \$             | \$                 |
| Costs and Expenses:   |                                   |                    |                           |                |                    |
| Mine Expenses   | 179,968                           | 146,330            | 673,050                   | 1,028,899      | 6,992,502          |
| Write-Down of Mining, Milling and Other<br>Property and Equipment |                                   |                    | 300,000                   |                | 1,299,445          |
| Selling, General and Administrative Expenses                      | 152,007                           | 139,255            | 687,722                   | 770,629        | 9,009,936          |
| Stock Based Compensation  | 29,260                            | 33,034             | 379,033                   | 288,623        | 9,251,263          |
| Depreciation  |                                   |                    |                           |                | 367,726            |
| Total Costs and Expenses  | 361,235                           | 318,619            | 2,039,805                 | 2,088,151      | 26,920,872         |
| Loss From Operations  | (361,235)                         | (318,619)          | (2,039,805)               | (2,088,151)    | (26,920,872)       |
| Other Income (Expense):   |                                   |                    |                           |                |                    |
| Interest Income   | 235                               | 174                | 4,074                     | 31,864         | 753,750            |
| Miscellaneous   | 4,905                             |                    |                           | 6,401          | 37,582             |
| Gain on Sale of Property and Equipment                            |                                   |                    |                           |                | 46,116             |
| Gain on Sale of Subsidiary  |                                   |                    |                           |                | 1,907,903          |
| Option Payment  |                                   |                    |                           |                | 70,688             |
| Loss on Write-Off of Investment                                   |                                   |                    |                           |                | (10,000)           |
| Loss on Joint Venture   |                                   |                    | (800,000)                 |                | (901,700)          |
| Loss on Option  |                                   |                    |                           | (50,000)       | (50,000)           |
| Loss on Other Investments   |                                   |                    | (3,697)                   |                | (3,697)            |
| Loss on Write-Off of Minority Interest                            |                                   |                    | (150,382)                 |                | (150,382)          |
| Total Other Income (Expense)                                      | 5,140                             | 174                | (950,005)                 | (11,735)       | 1,700,260          |
| Loss Before Minority Interest                                     | (356,095)                         | (318,445)          | (2,989,810)               | (2,099,886)    | (25,220,612)       |
| Minority Interest   |                                   | 24,548             | 51,220                    | 180,625        | 286,388            |
| Net Loss  | \$ (356,095)                      | \$ (293,897)       | \$ (2,938,590)            | \$ (1,919,261) | \$ (24,934,224)    |
| Net Loss Per Common Share Basic and Diluted                       | \$ (.01)                          | \$ (.01)           | \$ (.06)                  | \$ (.05)       |                    |
| Weighted Average Common Shares Outstanding                        | 58,746,129                        | 45,150,223         | 51,584,715                | 41,892,989     |                    |

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For the Three Months Ended

For The Year Ended  
July 31,

For The  
Period  
September  
17,1982  
(Inception)  
To  
October 31,  
2004

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|---|--------------|--------|----------------------------------|--|-----------|
|   | Shares       | Amount |                                  |  |           |
| Balance<br>September 17, 1982<br>(Inception)  | -0-          | \$ -0- | \$ -0-                           | \$ -0-   | \$ -0-    |
| Initial Cash  |              |        |                                  |  |           |
| Officers - At \$.001 Per Share  | 1,575,000    | 1,575  |                                  |  | 1,575     |
| Other Investors -<br>At \$.001 Per Share  | 1,045,000    | 1,045  |                                  |  | 1,045     |
| Initial - Mining Claims -<br>Officer - At \$.002 Per Share  | 875,000      | 875    | 759                              |  | 1,634     |
| Common Stock Issued For:<br>Cash At \$.50 Per Share   | 300,000      | 300    | 149,700                          |  | 150,000   |
| Net Loss  |              |        |                                  | (8,486)  | (8,486)   |
| Balance - July 31, 1983   | 3,795,000    | 3,795  | 150,459                          | (8,486)  | 145,768   |
| Common Stock Issued For:<br>Cash Pursuant to Initial Offering<br>At \$1.50 Per Share, Net of<br>Offering Costs of \$408,763 | 1,754,741    | 1,755  | 2,221,594                        |  | 2,223,349 |
| Net Income  |              |        |                                  | 48,890   | 48,890    |
| Balance - July 31, 1984   | 5,549,741    | 5,550  | 2,372,053                        | 40,404   | 2,418,007 |
| Net Income  |              |        |                                  | 18,486   | 18,486    |
| Balance - July 31, 1985   | 5,549,741    | 5,550  | 2,372,053                        | 58,890   | 2,436,493 |
| Common Stock Issued For:<br>Mineral Lease At \$1.00 Per Share   | 100          |        | 100                              |  | 100       |
| Net Income  |              |        |                                  | 4,597  | 4,597     |
| Balance - July 31, 1986   | 5,549,841    | 5,550  | 2,372,153                        | 63,487   | 2,441,190 |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total        |
|--|--------------|--------|----------------------------------|--|--------------|
|  | Shares       | Amount |                                  |  |              |
| Net Loss   |              | \$     | \$                               | \$ (187,773)   | \$ (187,773) |
| Balance - July 31, 1987  | 5,549,841    | 5,550  | 2,372,153                        | (124,286)  | 2,253,417    |
| Common Stock Issued For:<br>Services Rendered At<br>\$1.00 Per Share | 92,000       | 92     | 91,908                           |  | 92,000       |
| Net Loss   |              |        |                                  | (328,842)  | (328,842)    |
| Balance - July 31, 1988  | 5,641,841    | 5,642  | 2,464,061                        | (453,128)  | 2,016,575    |
| Net Loss   |              |        |                                  | (379,852)  | (379,852)    |
| Balance - July 31, 1989  | 5,641,841    | 5,642  | 2,464,061                        | (832,980)  | 1,636,723    |
| Common Stock Issued For:<br>Cash:                                    |              |        |                                  |  |              |
| At \$.70 Per Share   | 269,060      | 269    | 194,219                          |  | 194,488      |
| At \$.50 Per Share   | 387,033      | 387    | 199,443                          |  | 199,830      |
| Services:  |              |        |                                  |  |              |
| At \$.50 Per Share   | 68,282       | 68     | 34,073                           |  | 34,141       |
| Commissions:   |              |        |                                  |  |              |
| At \$.70 Per Share   | 15,000       | 15     | (15)                             |  |              |
| Commissions Paid   |              |        | (2,100)                          |  | (2,100)      |
| Net Loss   |              |        |                                  | (529,676)  | (529,676)    |
| Balance - July 31, 1990  | 6,381,216    | 6,381  | 2,889,681                        | (1,362,656)  | 1,533,406    |
| Common Stock Issued For:<br>Cash At \$.60 Per Share                  | 318,400      | 319    | 180,954                          |  | 181,273      |
| Net Loss   |              |        |                                  | (356,874)  | (356,874)    |
| Balance - July 31, 1991  | 6,699,616    | 6,700  | 3,070,635                        | (1,719,530)  | 1,357,805    |

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



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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|--|--------------|--------|----------------------------------|--|-----------|
|  | Shares       | Amount |                                  |  |           |
| Common Stock Issued For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.30 Per Share                     | 114,917      | \$ 115 | \$ 34,303                        |  | \$ 34,418 |
| At \$.50 Per Share                     | 2,000        | 2      | 998                              |  | 1,000     |
| At \$.60 Per Share                     | 22,867       | 23     | 13,698                           |  | 13,721    |
| At \$.70 Per Share                     | 10,000       | 10     | 6,990                            |  | 7,000     |
| At \$.80 Per Share                     | 6,250        | 6      | 4,994                            |  | 5,000     |
| At \$.90 Per Share                     | 5,444        | 5      | 4,895                            |  | 4,900     |
| Services:                              |              |        |                                  |  |           |
| At \$.32 Per Share                     | 39,360       | 39     | 12,561                           |  | 12,600    |
| At \$.50 Per Share                     | 92,353       | 93     | 46,084                           |  | 46,177    |
| Exercise of Options:                   |              |        |                                  |  |           |
| At \$.50 Per Share By<br>Related Party | 100,000      | 100    | 49,900                           |  | 50,000    |
| Net Loss                               |              |        |                                  | (307,477)  | (307,477) |
| Balance - July 31, 1992                | 7,092,807    | 7,093  | 3,245,058                        | (2,027,007)  | 1,225,144 |
| Common Stock Issued For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.30 Per Share                     | 176,057      | \$ 176 | \$ 51,503                        |  | \$ 51,679 |
| At \$.50 Per Share                     | 140,000      | 140    | 69,964                           |  | 70,104    |
| At \$.60 Per Share                     | 10,000       | 10     | 5,990                            |  | 6,000     |
| At \$.70 Per Share                     | 17,000       | 17     | 11,983                           |  | 12,000    |
| At \$1.00 Per Share                    | 50,000       | 50     | 49,950                           |  | 50,000    |
| Services:                              |              |        |                                  |  |           |
| At \$.50 Per Share                     | 495,556      | 496    | 272,504                          |  | 273,000   |
| Commissions:                           |              |        |                                  |  |           |
| At \$.50 Per Share                     | 20,220       | 20     | (20)                             |  |           |
| Commissions Paid                       |              |        | (1,500)                          |  | (1,500)   |
| Net Loss                               |              |        |                                  | (626,958)  | (626,958) |
| Balance - July 31, 1993                | 8,001,640    | 8,002  | 3,705,432                        | (2,653,965)  | 1,059,469 |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|--|--------------|--------|----------------------------------|--|-----------|
|  | Shares       | Amount |                                  |  |           |
| Common Stock Issued For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.30 Per Share                     | 249,330      | \$ 150 | \$ 43,489                        | \$   | \$ 43,639 |
| At \$.50 Per Share                     | 377,205      | 377    | 189,894                          |  | 190,271   |
| Services:                              |              |        |                                  |  |           |
| At \$.30 Per Share                     | 500,000      | 500    | 149,500                          |  | 150,000   |
| At \$.50 Per Share                     | 130,000      | 130    | 71,287                           |  | 71,417    |
| At \$.50 Per Share<br>By Related Party | 56,000       | 156    | 77,844                           |  | 78,000    |
| At \$.70 Per Share                     | 4,743        | 4      | 3,316                            |  | 3,320     |
| Exercise of Options For Services:      |              |        |                                  |  |           |
| At \$.50 Per Share                     | 35,000       | 35     | 17,465                           |  | 17,500    |
| At \$.50 Per Share<br>By Related Party | 150,000      | 150    | 74,850                           |  | 75,000    |
| Net Loss                               |              |        |                                  | (665,909)  | (665,909) |
| Balance - July 31, 1994                | 9,503,918    | 9,504  | 4,333,077                        | (3,319,874)  | 1,022,707 |
| Common Stock Issued For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.30 Per Share                     | 150,000      | \$ 150 | \$ 49,856                        | \$   | \$ 50,006 |
| At \$.40 Per Share                     | 288,200      | 288    | 115,215                          |  | 115,503   |
| At \$.50 Per Share                     | 269,611      | 270    | 132,831                          |  | 133,101   |
| At \$.60 Per Share                     | 120,834      | 121    | 72,379                           |  | 72,500    |
| At \$.70 Per Share                     | 23,000       | 23     | 16,077                           |  | 16,100    |
| Services:                              |              |        |                                  |  |           |
| At \$.40 Per Share                     | 145,000      | 145    | 60,755                           |  | 60,900    |
| At \$.50 Per Share                     | 75,000       | 75     | 34,925                           |  | 35,000    |
| Exercise of Options For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.50 Per Share<br>By Related Party | 350,000      | 350    | 174,650                          |  | 175,000   |
| Services:                              |              |        |                                  |  |           |
| At \$.50 Per Share                     | 35,000       | 35     | 17,465                           |  | 17,500    |
| Commissions Paid                       |              |        | (1,650)                          |  | (1,650)   |
| Net Loss                               |              |        |                                  | (426,803)  | (426,803) |
| Balance - July 31, 1995                | 10,960,563   | 10,961 | 5,005,580                        | (3,746,677)  | 1,269,864 |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|--|--------------|--------|----------------------------------|--|-----------|
|  | Shares       | Amount |                                  |  |           |
| Common Stock Issued For:               |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.40 Per Share                     | 75,972       | \$ 76  | \$ 30,274                        |  | \$ 30,350 |
| At \$.50 Per Share                     | 550,423      | 550    | 270,074                          |  | 270,624   |
| At \$.60 Per Share                     | 146,773      | 147    | 87,853                           |  | 88,000    |
| At \$.70 Per Share                     | 55,722       | 56     | 38,949                           |  | 39,005    |
| At \$.80 Per Share                     | 110,100      | 110    | 87,890                           |  | 88,000    |
| Services:                              |              |        |                                  |  |           |
| At \$.40 Per Share                     | 104,150      | 104    | 38,296                           |  | 38,400    |
| At \$.50 Per Share                     | 42,010       | 42     | 20,963                           |  | 21,005    |
| At \$.60 Per Share                     | 4,600        | 5      | 2,755                            |  | 2,760     |
| At \$.70 Per Share                     | 154,393      | 155    | 107,920                          |  | 108,075   |
| Commissions:                           |              |        |                                  |  |           |
| At \$.35 Per Share                     | 23,428       | 23     | (23)                             |  |           |
| At \$.50 Per Share                     | 50,545       | 50     | (50)                             |  |           |
| At \$.60 Per Share                     | 2,000        | 2      | (2)                              |  |           |
| At \$.70 Per Share                     | 12,036       | 12     | (12)                             |  |           |
| Exercise of Options:                   |              |        |                                  |  |           |
| Cash:                                  |              |        |                                  |  |           |
| At \$.35 Per Share<br>By Related Party | 19,571       | 20     | 6,830                            |  | 6,850     |
| Services:                              |              |        |                                  |  |           |
| At \$.35 Per Share<br>By Related Party | 200,429      | 200    | 69,950                           |  | 70,150    |
| At \$.50 Per Share                     | 95,000       | 95     | 47,405                           |  | 47,500    |
| Compensation Portion of<br>Options     |              |        | 261,500                          |  | 261,500   |
| Net Loss                               |              |        |                                  | (956,043)  | (956,043) |
| Balance - July 31, 1996                | 12,607,715   | 12,608 | 6,076,152                        | (4,702,720)  | 1,386,040 |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|                          | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|--------------------------|--------------|--------|----------------------------------|--|-----------|
|                          | Shares       | Amount |                                  |  |           |
| Common Stock Issued For: |              |        |                                  |  |           |
| Cash:                    |              |        |                                  |  |           |
| At \$.35 Per Share       | 50,000       | \$ 50  | \$ 17,450                        | \$   | \$ 17,500 |
| At \$.40 Per Share       | 323,983      | 324    | 128,471                          |  | 128,795   |
| At \$.50 Per Share       | 763,881      | 762    | 381,174                          |  | 381,936   |
| At \$.60 Per Share       | 16,667       | 17     | 9,983                            |  | 10,000    |
| At \$.70 Per Share       | 7,143        | 7      | 4,993                            |  | 5,000     |
| At \$.80 Per Share       | 28,750       | 29     | 22,971                           |  | 23,000    |
| Services:                |              |        |                                  |  |           |
| At \$.50 Per Share       | 295,884      | 296    | 147,646                          |  | 147,942   |
| Commissions:             |              |        |                                  |  |           |
| At \$.35 Per Share       | 44,614       | 45     | (45)                             |  |           |
| At \$.40 Per Share       | 41,993       | 42     | (42)                             |  |           |
| At \$.50 Per Share       | 37,936       | 38     | (38)                             |  |           |
| Expense:                 |              |        |                                  |  |           |
| At \$.35 Per Share       | 8,888        | 9      | 3,099                            |  | 3,108     |
| At \$.40 Per Share       | 9,645        | 10     | 3,848                            |  | 3,858     |
| Property and Equipment   |              |        |                                  |  |           |
| At \$.60 Per Share       | 7,500        | 8      | 4,492                            |  | 4,500     |
| Exercise of Options      |              |        |                                  |  |           |
| Services:                |              |        |                                  |  |           |
| At \$.35 Per Share       |              |        |                                  |  |           |
| By Related Party         | 136,301      | 136    | 47,569                           |  | 47,705    |
| Net Loss                 |              |        |                                  | (805,496)  | (805,496) |
| Balance - July 31, 1997  | 14,380,900   | 14,381 | 6,847,723                        | (5,508,216)  | 1,353,888 |

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



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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|                          | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total     |
|--------------------------|--------------|--------|----------------------------------|--|-----------|
|                          | Shares       | Amount |                                  |  |           |
| Common Stock Issued For: |              |        |                                  |  |           |
| Cash:                    |              |        |                                  |  |           |
| At \$.20 Per Share       | 10,000       | \$ 10  | \$ 1,990                         |  | \$ 2,000  |
| At \$.25 Per Share       | 100,000      | 100    | 24,900                           |  | 25,000    |
| At \$.27 Per Share       | 45,516       | 46     | 12,244                           |  | 12,290    |
| At \$.28 Per Share       | 150,910      | 151    | 41,349                           |  | 41,500    |
| At \$.30 Per Share       | 60,333       | 60     | 18,040                           |  | 18,100    |
| At \$.31 Per Share       | 9,677        | 10     | 2,990                            |  | 3,000     |
| At \$.32 Per Share       | 86,750       | 87     | 27,673                           |  | 27,760    |
| At \$.33 Per Share       | 125,364      | 125    | 41,245                           |  | 41,370    |
| At \$.35 Per Share       | 75,144       | 75     | 26,225                           |  | 26,300    |
| At \$.38 Per Share       | 49,048       | 49     | 18,311                           |  | 18,360    |
| At \$.40 Per Share       | 267,500      | 268    | 106,732                          |  | 107,000   |
| At \$.45 Per Share       | 65,333       | 65     | 29,335                           |  | 29,400    |
| At \$.50 Per Share       | 611,184      | 610    | 304,907                          |  | 305,517   |
| Services:                |              |        |                                  |  |           |
| At \$.23 Per Share       | 48,609       | 49     | 11,131                           |  | 11,180    |
| Exercise of Options:     |              |        |                                  |  |           |
| Services:                |              |        |                                  |  |           |
| At \$.22 Per Share       | 82,436       | 82     | 18,054                           |  | 18,136    |
| At \$.35 Per Share       | 183,846      | 184    | 64,162                           |  | 64,346    |
| Compensation:            |              |        |                                  |  |           |
| At \$.22 Per Share       | 105,000      | 105    | 22,995                           |  | 23,100    |
| At \$.35 Per Share       | 25,000       | 25     | 8,725                            |  | 8,750     |
| Commissions:             |              |        |                                  |  |           |
| At \$.22 Per Share       | 67,564       | 68     | (68)                             |  |           |
| At \$.35 Per Share       | 291,028      | 291    | (291)                            |  |           |
| Net Loss                 |              |        |                                  | (807,181)  | (807,181) |
| Balance - July 31, 1998  | 16,841,142   | 16,841 | 7,628,372                        | (6,315,397)  | 1,329,816 |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|                          | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total    |
|--------------------------|--------------|--------|----------------------------------|--|----------|
|                          | Shares       | Amount |                                  |  |          |
| Common Stock Issued For: |              |        |                                  |  |          |
| Cash:                    |              |        |                                  |  |          |
| At \$0.20 Per Share      | 12,500       | \$ 13  | \$ 2,487                         |  | \$ 2,500 |
| At \$0.22 Per Share      | 45,454       | 45     | 9,955                            |  | 10,000   |
| At \$0.25 Per Share      | 248,788      | 249    | 61,948                           |  | 62,197   |
| At \$0.27 Per Share      | 132,456      | 132    | 35,631                           |  | 35,763   |
| At \$0.28 Per Share      | 107,000      | 107    | 30,493                           |  | 30,600   |
| At \$0.29 Per Share      | 20,000       | 20     | 5,780                            |  | 5,800    |
| At \$0.30 Per Share      | 49,333       | 49     | 14,751                           |  | 14,800   |
| At \$0.32 Per Share      | 152,725      | 153    | 48,719                           |  | 48,872   |
| At \$0.33 Per Share      | 149,396      | 149    | 49,151                           |  | 49,300   |
| At \$0.35 Per Share      | 538,427      | 538    | 187,912                          |  | 188,450  |
| At \$0.40 Per Share      | 17,000       | 17     | 6,783                            |  | 6,800    |
| At \$0.50 Per Share      | 53,000       | 53     | 26,447                           |  | 26,500   |
| At \$0.55 Per Share      | 6,000        | 6      | 3,294                            |  | 3,300    |
| At \$0.65 Per Share      | 33,846       | 34     | 21,966                           |  | 22,000   |
| At \$0.68 Per Share      | 13,235       | 13     | 8,987                            |  | 9,000    |
| At \$0.70 Per Share      | 153,572      | 154    | 107,346                          |  | 107,500  |
| At \$0.90 Per Share      | 57,777       | 58     | 51,942                           |  | 52,000   |
| At \$1.00 Per Share      | 50,000       | 50     | 49,950                           |  | 50,000   |
| At \$1.10 Per Share      | 150,000      | 150    | 164,850                          |  | 165,000  |
| Expenses:                |              |        |                                  |  |          |
| At \$0.21 Per Share      | 37,376       | 37     | 7,812                            |  | 7,849    |
| At \$0.30 Per Share      | 19,450       | 19     | 5,816                            |  | 5,835    |
| At \$0.36 Per Share      | 34,722       | 35     | 12,465                           |  | 12,500   |
| Commission:              |              |        |                                  |  |          |
| At \$0.21 Per Share      | 158,426      | 158    | (158)                            |  |          |
| At \$0.25 Per Share      | 28,244       | 28     | (28)                             |  |          |
| At \$0.30 Per Share      | 132,759      | 133    | (133)                            |  |          |
| At \$0.35 Per Share      | 40,000       | 40     | (40)                             |  |          |
| Services:                |              |        |                                  |  |          |
|                          | 95,238       | 95     | 19,905                           |  | 20,000   |
| At \$0.25 Per Share      | 17,000       | 17     | 4,233                            |  | 4,250    |
| At \$0.30 Per Share      | 145,941      | 146    | 43,636                           |  | 43,782   |
| At \$0.50 Per Share      | 71,808       | 72     | 35,832                           |  | 35,904   |

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total       |
|--|--------------|--------|----------------------------------|--|-------------|
|  | Shares       | Amount |                                  |  |             |
| Compensation portion of Cash Issuances |              | \$     | \$ 618,231                       | \$   | \$ 618,231  |
| Compensation Portion of Options        |              |        | 304,900                          |  | 304,900     |
| Exercise of Options:                   |              |        |                                  |  |             |
| Cash                                   |              |        |                                  |  |             |
| At \$0.10 Per Share                    | 510,000      | 510    | 50,490                           |  | 51,000      |
| Services:                              |              |        |                                  |  |             |
| At \$0.70 Per Share                    | 100,000      | 100    | 69,900                           |  | 70,000      |
| Net Loss                               |              |        |                                  | (1,964,447)  | (1,964,447) |
| Balance - July 31, 1999                | 20,222,615   | 20,221 | 9,689,625                        | (8,279,844)  | 1,430,002   |
| Common Stock Issued For:               |              |        |                                  |  |             |
| Cash:                                  |              |        |                                  |  |             |
| At \$.18 Per Share                     | 27,778       | 28     | 4,972                            |  | 5,000       |
| At \$.20 Per Share                     | 482,500      | 483    | 96,017                           |  | 96,500      |
| At \$.21 Per Share                     | 47,500       | 47     | 9,953                            |  | 10,000      |
| At \$.22 Per Share                     | 844,821      | 845    | 185,012                          |  | 185,857     |
| At \$.30 Per Share                     | 100,000      | 100    | 29,900                           |  | 30,000      |
| At \$.35 Per Share                     | 280,000      | 280    | 97,720                           |  | 98,000      |
| At \$.37 Per Share                     | 56,000       | 56     | 19,944                           |  | 20,000      |
| At \$.38 Per Share                     | 100,000      | 100    | 37,900                           |  | 38,000      |
| At \$.40 Per Share                     | 620,000      | 620    | 247,380                          |  | 248,000     |
| At \$.42 Per Share                     | 47,715       | 48     | 19,952                           |  | 20,000      |
| At \$.45 Per Share                     | 182,445      | 182    | 81,918                           |  | 82,100      |
| At \$.50 Per Share                     | 313,000      | 313    | 156,187                          |  | 156,500     |
| At \$.55 Per Share                     | 122,778      | 123    | 67,377                           |  | 67,500      |
| At \$.58 Per Share                     | 12,069       | 12     | 6,988                            |  | 7,000       |
| Expenses:                              |              |        |                                  |  |             |
| At \$.20 Per Share                     | 4,167        | 4      | 829                              |  | 833         |
| At \$.22 Per Share                     | 46,091       | 46     | 10,094                           |  | 10,140      |
| Compensation Portion                   |              |        | 94,430                           |  | 94,430      |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Total       |
|---|--------------|--------|----------------------------------|--|-------------|
|   | Shares       | Amount |                                  |  |             |
| Exercise of Options:                        |              |        |                                  |  |             |
| Services:                                   |              |        |                                  |  |             |
| At \$.25 Per Share                          | 30,000       | \$ 30  | \$ 7,470                         | \$   | \$ 7,500    |
| At \$.40 Per Share                          | 95,000       | 95     | 37,905                           |  | 38,000      |
| At \$.50 Per Share                          | 25,958       | 26     | 12,954                           |  | 12,980      |
| Commissions:                                |              |        |                                  |  |             |
| At \$.20 Per Share                          | 26,750       | 27     | (27)                             |  |             |
| At \$.22 Per Share                          | 86,909       | 87     | (87)                             |  |             |
| Exercise of Options:                        |              |        |                                  |  |             |
| Cash:                                       |              |        |                                  |  |             |
| At \$.10 Per Share                          | 100,000      | 100    | 9,900                            |  | 10,000      |
| Exercise of Options:                        |              |        |                                  |  |             |
| Services:                                   |              |        |                                  |  |             |
| At \$.22 Per Share                          | 150,000      | 150    | 32,850                           |  | 33,000      |
| Stock Based Compensation                    |              |        | 221,585                          |  | 221,585     |
| Net Loss                                    |              |        |                                  | (1,530,020)  | (1,530,020) |
| Balance - July 31, 2000<br>(Unconsolidated) | 24,024,096   | 24,023 | 11,178,748                       | (9,809,864)  | 1,392,907   |
| Common Stock Issued For:                    |              |        |                                  |  |             |
| Cash:                                       |              |        |                                  |  |             |
| At \$.15 Per Share                          | 120,000      | 120    | 17,880                           |  | 18,000      |
| At \$.17 Per Share                          | 80,000       | 80     | 13,520                           |  | 13,600      |
| At \$.18 Per Share                          | 249,111      | 249    | 44,591                           |  | 44,840      |
| At \$.19 Per Share                          | 70,789       | 71     | 13,379                           |  | 13,450      |
| At \$.20 Per Share                          | 1,322,500    | 1,323  | 261,677                          |  | 263,000     |
| At \$.21 Per Share                          | 33,810       | 34     | 7,066                            |  | 7,100       |
| At \$.22 Per Share                          | 2,472,591    | 2,473  | 541,497                          |  | 543,970     |
| At \$.23 Per Share                          | 65,239       | 65     | 14,935                           |  | 15,000      |
| At \$.24 Per Share                          | 123,337      | 123    | 29,477                           |  | 29,600      |
| At \$.25 Per Share                          | 610,400      | 611    | 151,884                          |  | 152,495     |
| At \$.26 Per Share                          | 625,769      | 626    | 162,074                          |  | 162,700     |
| At \$.27 Per Share                          | 314,850      | 315    | 84,695                           |  | 85,010      |
| At \$.28 Per Share                          | 7,143        | 7      | 1,993                            |  | 2,000       |
| At \$.30 Per Share                          | 33,333       | 33     | 9,967                            |  | 10,000      |
| At \$.35 Per Share                          | 271,429      | 272    | 94,728                           |  | 95,000      |
| At \$.38 Per Share                          | 453,158      | 453    | 169,547                          |  | 170,000     |
| At \$.40 Per Share                          | 300,000      | 300    | 119,700                          |  | 120,000     |
| At \$.50 Per Share                          | 10,000       | 10     | 4,990                            |  | 5,000       |

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total     |
|--|--------------|--------|----------------------------------|--|---|-----------|
|  | Shares       | Amount |                                  |  |   |           |
| Compensation Portion:                  |              | \$     | \$ 24,000                        | \$   | \$  | \$ 24,000 |
| Expenses:                              |              |        |                                  |  |   |           |
| At \$.27 Per Share                     | 30,000       | 30     | 8,070                            |  |   | 8,100     |
| Services:                              |              |        |                                  |  |   |           |
| At \$.20 Per Share                     | 33,850       | 34     | 6,736                            |  |   | 6,770     |
| At \$.23 Per Share                     | 15,000       | 15     | 3,435                            |  |   | 3,450     |
| At \$.11 Per Share                     | 87,272       | 87     | 9,513                            |  |   | 9,600     |
| At \$.34 Per Share                     | 50,000       | 50     | 16,950                           |  |   | 17,000    |
| Compensation Portion:                  |              |        | 21,777                           |  |   | 21,777    |
| Commission:                            |              |        |                                  |  |   |           |
| At \$.11 Per Share                     | 266,500      | 267    | (267)                            |  |   |           |
| At \$.20 Per Share                     | 26,150       | 26     | (26)                             |  |   |           |
| At \$.22 Per Share                     | 15,000       | 15     | (15)                             |  |   |           |
| Compensation Portion:                  |              |        | 36,595                           |  |   | 36,595    |
| Exercise of Options:                   |              |        |                                  |  |   |           |
| Cash:                                  |              |        |                                  |  |   |           |
| At \$.02 Per Share By<br>Related Party | 225,000      | 225    | 4,725                            |  |   | 4,950     |
| At \$.10 Per Share                     | 200,000      | 200    | 19,800                           |  |   | 20,000    |
| Expenses:                              |              |        |                                  |  |   |           |
| At \$.02 Per Share By<br>Related Party | 53,270       | 53     | 1,120                            |  |   | 1,173     |
| Compensation Portion:                  |              |        | 25,463                           |  |   | 25,463    |
| Commission:                            |              |        |                                  |  |   |           |
| At \$.02 Per Share                     | 350,000      | 350    | (350)                            |  |   |           |
| Compensation Portion:                  |              |        | 132,300                          |  |   | 132,300   |
| Commission:                            |              |        |                                  |  |   |           |
| At \$.05 Per Share                     | 1,000,000    | 1,000  | (1,000)                          |  |   |           |
| Compensation Portion:                  |              |        | 400,000                          |  |   | 400,000   |
| Stock Based Compensation               |              |        | 7,002,500                        |  |   | 7,002,500 |

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



*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total       |
|---|--------------|--------|----------------------------------|--|---|-------------|
|   | Shares       | Amount |                                  |  |   |             |
| Comprehensive Loss:                                       |              |        |                                  |  |   |             |
| Net Loss  |              |        |                                  | (9,418,266)  |   | (9,418,266) |
| Equity Adjustment from<br>Foreign Currency<br>Translation |              |        |                                  |  | (493)   | (493)       |
| Total Comprehensive<br>Loss                               |              |        |                                  |  |   | (9,418,759) |
| Balance - July 31, 2001                                   | 33,539,597   | 33,540 | 20,633,674                       | (19,228,130)   | (493)   | 1,438,591   |
| Common Stock Issued<br>For:                               |              |        |                                  |  |   |             |
| Cash:   |              |        |                                  |  |   |             |
| At \$.022 Per Share                                       | 1,400,976    | 1,401  | 29,420                           |  |   | 30,821      |
| At \$.08 Per Share  | 250,000      | 250    | 19,750                           |  |   | 20,000      |
| At \$.10 Per Share  | 980,000      | 980    | 97,020                           |  |   | 98,000      |
| At \$.11 Per Share  | 145,456      | 145    | 15,855                           |  |   | 16,000      |
| At \$.115 Per Share                                       | 478,260      | 478    | 54,522                           |  |   | 55,000      |
| At \$.12 Per Share  | 500,000      | 500    | 59,500                           |  |   | 60,000      |
| At \$.125 Per Share                                       | 40,000       | 40     | 4,960                            |  |   | 5,000       |
| At \$.14 Per Share  | 44,000       | 44     | 6,116                            |  |   | 6,160       |
| At \$.15 Per Share  | 383,667      | 384    | 57,166                           |  |   | 57,550      |
| At \$.18 Per Share  | 25,000       | 25     | 4,475                            |  |   | 4,500       |
| Commissions:  |              |        |                                  |  |   |             |
| At \$.115 Per Share                                       | 69,565       | 70     | (70)                             |  |   |             |
| At \$.22 Per Share  | 100,000      | 100    | (100)                            |  |   |             |
| At \$.08 Per Share  | 20,625       | 21     | (21)                             |  |   |             |
| At \$.14-\$.22 Per Share                                  | 282,475      | 282    | (282)                            |  |   |             |
| Services:   |              |        |                                  |  |   |             |
| At \$.10 Per Share  | 35,950       | 36     | 3,559                            |  |   | 3,595       |
| Exercise of Options:                                      |              |        |                                  |  |   |             |
| Non Cash:   |              |        |                                  |  |   |             |
| At \$.022 Per Share by<br>Related Party:                  | 227,273      | 227    | 4,773                            |  |   | 5,000       |
| Exercise of Options:                                      |              |        |                                  |  |   |             |
| Cash:   |              |        |                                  |  |   |             |
| At \$.022 Per Share by<br>Related Parties                 | 909,092      | 909    | 19,091                           |  |   | 20,000      |
| At \$.022 Per Share by                                    |              |        |                                  |  |   |             |



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|        |           |       |        |        |
|--------|-----------|-------|--------|--------|
| Others | 1,205,929 | 1,206 | 25,325 | 26,531 |
|--------|-----------|-------|--------|--------|

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total     |
|--|--------------|--------|----------------------------------|--|--|-----------|
|  | Shares       | Amount |                                  |  |  |           |
| Additional Paid-In Capital<br>Arising From Investment<br>In Joint Venture Subsidiary<br>by Minority Interest |              |        | 51,934                           |  |  | 51,934    |
| Stock Based Compensation   |              |        | 222,338                          |  |  | 222,338   |
| Comprehensive Loss:<br>Net Loss  |              |        |                                  | (492,148)  |  | (492,148) |
| Equity Adjustment from<br>Foreign Currency<br>Translation  |              |        |                                  |  | (6,753)  | (6,753)   |
| Total Comprehensive<br>Loss  |              |        |                                  |  |  | (498,901) |
| Balance - July 31, 2002  | 40,637,865   | 40,638 | 21,309,005                       | (19,720,278)   | (7,246)  | 1,622,119 |
| Common Stock Issued for:   |              |        |                                  |  |  |           |
| Cash:  |              |        |                                  |  |  |           |
| At \$.022 Per Share  | 250,000      | 250    | 5,250                            |  |  | 5,500     |
| At \$.10 Per Share   | 50,000       | 50     | 4,950                            |  |  | 5,000     |
| At \$.12 Per Share   | 1,250,000    | 1,250  | 148,750                          |  |  | 150,000   |
| At \$.14 Per Share   | 235,714      | 236    | 32,764                           |  |  | 33,000    |
| At \$.15 Per Share   | 1,016,865    | 1,017  | 151,513                          |  |  | 152,530   |
| Exercise of Options:   |              |        |                                  |  |  |           |
| Cash:  |              |        |                                  |  |  |           |
| At \$.022 Per Share by<br>Related Party  | 922,727      | 923    | 19,377                           |  |  | 20,300    |
| At \$.05 Per Share by<br>Related Party   | 200,000      | 200    | 9,800                            |  |  | 10,000    |
| At \$.05 Per Share by<br>Others  | 100,000      | 100    | 4,900                            |  |  | 5,000     |
| Services:  |              |        |                                  |  |  |           |
| At \$4.00 Per Share  | 14,363       | 13     | 57,378                           |  |  | 57,391    |
| Additional Paid-In Capital<br>Arising from Investment<br>In Joint Venture Subsidiary<br>By Minority Interest |              |        | 159,919                          |  |  | 159,919   |
| Stock Based<br>Compensation  |              |        | 288,623                          |  |  | 288,623   |

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|   |            |        |            |              |        |                    |
|---|------------|--------|------------|--------------|--------|--------------------|
| <hr/>   |            |        |            |              |        |                    |
| Comprehensive Loss:                                       |            |        |            |              |        |                    |
| Net Loss  |            |        |            | (1,919,261)  |        | (1,919,261)        |
| Equity Adjustment from<br>Foreign Currency<br>Translation |            |        |            |              | 60,879 | <u>60,879</u>      |
| Total Comprehensive<br>Loss                               |            |        |            |              |        | <u>(1,858,382)</u> |
| Balance - July 31, 2003                                   | 44,677,534 | 44,677 | 22,192,229 | (21,639,539) | 53,633 | 651,000            |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|  | Common Stock |        | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total   |
|--|--------------|--------|----------------------------------|--|--|---------|
|  | Shares       | Amount |                                  |  |  |         |
| Common Stock Issued for:   |              |        |                                  |  |  |         |
| Cash   |              |        |                                  |  |  |         |
| At \$.05 Per Share   | 150,000      | 150    | 7,350                            |  |  | 7,500   |
| At \$.11 Per Share   | 245,455      | 245    | 26,755                           |  |  | 27,000  |
| At \$.12 Per Share   | 5,929,565    | 5,929  | 705,318                          |  |  | 711,247 |
| At \$.13 Per Share   | 349,691      | 350    | 45,110                           |  |  | 45,460  |
| At \$.14 Per Share   | 346,284      | 346    | 48,133                           |  |  | 48,479  |
| At \$.15 Per Share   | 368,665      | 369    | 54,931                           |  |  | 55,300  |
| At \$.16 Per Share   | 593,750      | 594    | 94,406                           |  |  | 95,000  |
| At \$.17 Per Share   | 145,000      | 145    | 24,505                           |  |  | 24,650  |
| At \$.18 Per Share   | 55,554       | 56     | 9,944                            |  |  | 10,000  |
| At \$.20 Per Share   | 365,000      | 365    | 72,635                           |  |  | 73,000  |
| At \$.23 Per Share   | 45,439       | 45     | 10,405                           |  |  | 10,450  |
| At \$.24 Per Share   | 74,166       | 74     | 17,726                           |  |  | 17,800  |
| At \$.25 Per Share   | 80,000       | 80     | 19,920                           |  |  | 20,000  |
| Exercise of Options:   |              |        |                                  |  |  |         |
| Cash:  |              |        |                                  |  |  |         |
| At \$.02 Per Share by<br>Related Party   | 272,727      | 272    | 5,328                            |  |  | 5,600   |
| At \$.05 Per Share by<br>Related Parties   | 450,000      | 450    | 22,050                           |  |  | 22,500  |
| At \$.12 Per Share by<br>Related Party   | 97,826       | 98     | 11,155                           |  |  | 11,253  |
| At \$.02 Per Share by<br>Others  | 250,000      | 250    | 5,250                            |  |  | 5,500   |
| At \$.05 Per Share by<br>Others  | 1,265,000    | 1,266  | 61,984                           |  |  | 63,250  |
| Services:  |              |        |                                  |  |  |         |
| At \$.12 Per Share   | 7,500        | 8      | 892                              |  |  | 900     |
| Additional Paid-In Capital<br>Arising from Investment<br>In Joint Venture Subsidiary<br>By Minority Interest |              |        |                                  |  |  |         |
|  |              |        | 100,156                          |  |  | 100,156 |
| Stock Based Compensation:  |              |        |                                  |  |  |         |
| Related Parties  |              |        | 314,000                          |  |  | 314,000 |
| Other  |              |        | 65,033                           |  |  | 65,033  |
| Common Stock Issued<br>In Connection with<br>Termination of Joint<br>Venture                                 |              |        |                                  |  |  |         |
|  | 2,000,000    | 2,000  | 798,000                          |  |  | 800,000 |
| Comprehensive Loss:  |              |        |                                  |  |  |         |

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|   |                   |               |                   |                     |               |                    |
|---|-------------------|---------------|-------------------|---------------------|---------------|--------------------|
| Net Loss  |                   |               |                   | (2,938,590)         |               | (2,938,590)        |
| Equity Adjustment from<br>Foreign Currency<br>Translation |                   |               |                   |                     | (24,894)      | (24,894)           |
| Unrealized Gain on<br>Marketable Securities               |                   |               |                   |                     | 60,000        | 60,000             |
| Total Comprehensive<br>Loss                               |                   |               |                   |                     |               | <u>(2,903,484)</u> |
| Balance - July 31, 2004                                   | <u>57,769,156</u> | <u>57,769</u> | <u>24,713,215</u> | <u>(24,578,129)</u> | <u>88,739</u> | <u>281,594</u>     |

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

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY - (Continued)**  
**FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO OCTOBER 31, 2004**

|   | Common Stock |           | Additional<br>Paid-In<br>Capital | Deficit<br>Accumulated<br>In The<br>Development<br>Stage | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total      |
|---|--------------|-----------|----------------------------------|--|--|------------|
|   | Shares       | Amount    |                                  |  |  |            |
| Common Stock Issued for:  |              |           |                                  |  |  |            |
| Cash to Related Party<br>(Unaudited)  | 25,000       | 25        | 2,475                            |  |  | 2,500      |
| Cash:   |              |           |                                  |  |  |            |
| At \$.10 Per Share  | 150,000      | 150       | 14,850                           |  |  | 15,000     |
| At \$.11 Per Share  | 290,855      | 291       | 31,709                           |  |  | 32,000     |
| At \$.12 Per Share  | 1,295,163    | 1,295     | 154,125                          |  |  | 155,420    |
| At \$.13 Per Share  | 130,000      | 130       | 16,779                           |  |  | 16,909     |
| At \$.14 Per Share  | 35,714       | 36        | 4,964                            |  |  | 5,000      |
| Services: (Unaudited)   |              |           |                                  |  |  |            |
| At \$.11 Per Share  | 188,173      | 188       | 20,512                           |  |  | 20,700     |
| At \$.12 Per Share  | 71,334       | 71        | 8,489                            |  |  | 8,560      |
| Common Stock Issued<br>as Commissions on Sale<br>of Common Stock<br>(Unaudited) | 151,666      | 152       | (152)                            |  |  |            |
| Comprehensive Loss:<br>(Unaudited)  |              |           |                                  |  |  |            |
| Net Loss  |              |           |                                  | (356,095)  |  | (356,095)  |
| Equity Adjustment from<br>Foreign Currency<br>Translation                       |              |           |                                  |  | 5,884  | 5,884      |
| Unrealized Gain on<br>Marketable Securities                                     |              |           |                                  |  | 65,000   | 65,000     |
| Total Comprehensive<br>Loss (Unaudited)   |              |           |                                  |  |  | (285,211)  |
| Balance<br>October 31, 2004<br>(Unaudited)                                      | 60,107,061   | \$ 60,107 | \$ 24,966,966                    | \$ (24,934,224)  | \$ 159,623   | \$ 252,472 |

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

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

|  | <b>For the Three Months<br/>Ended<br/>October 31,</b> |                    | <b>For The Year Ended<br/>July 31,</b> |                    | <b>For The Period<br/>September 17,<br/>1982<br/>(Inception)<br/>To<br/>October 31, 2004</b> |
|--|---|--------------------|--|--------------------|--|
|  | <b>2004</b>   | <b>2003</b>        | <b>2004</b>                            | <b>2003</b>        | <b>(Unaudited)</b>   |
|  | <b>(Unaudited)</b>                                    | <b>(Unaudited)</b> |  |                    | <b>(Unaudited)</b>   |
| Cash Flow From Operating Activities:   |   |                    |  |                    |  |
| Net Loss   | \$ (356,095)  | \$ (293,897)       | \$ (2,938,590)                         | \$ (1,919,261)     | \$ (24,934,224)  |
| Adjustments to Reconcile Net Loss to<br>Net Cash (Used) By Operating Activities: |   |                    |  |                    |  |
| Depreciation   |   |                    |  |                    | 367,726  |
| Gain on Sale of Subsidiary   |   |                    |  |                    | (1,907,903)  |
| Minority Interest in Net Loss of Subsidiary                                      |   | (24,548)           | (51,220)                               | (180,625)          | (286,388)  |
| Write-Down of Impaired Mining, Milling and<br>Other Property and Equipment       |   |                    | 300,000                                |                    | 1,299,445  |
| Gain on Sale of Property and Equipment   |   |                    |  |                    | (46,116)   |
| Loss on Write-Off of Investment  |   |                    |  |                    | 10,000   |
| Loss on Joint Venture  |   |                    | 800,000                                |                    | 901,700  |
| Loss on Write-Off of Minority Interest   |   |                    | 150,382                                |                    | 150,382  |
| Value of Common Stock Issued for Services  |   |                    | 900                                    | 57,391             | 2,813,893  |
| Stock Based Compensation   | 29,260  | 33,034             | 379,033                                | 288,623            | 9,251,263  |
| Changes in Operating Assets and Liabilities:                                     |   |                    |  |                    |  |
| (Increase) Decrease in Prepaid Expenses  | 1,651   | (9,000)            | 1,533                                  | (10,027)           | (6,843)  |
| (Increase) in Other Current Assets   | 6,076   | (2,023)            | (15,270)                               | (11,654)           | (24,172)   |
| (Increase) in Security Deposits  |   | (1,164)            |  |                    | (8,435)  |
| Increase (Decrease) in Accounts Payable  | (8,651)   | (36,158)           | (43,941)                               | (51,015)           | 71,618   |
| (Decrease) in Accrued Expenses   | (621)   | (5,659)            | (6,199)                                | (62,781)           | (7,092)  |
| <b>Net Cash (Used) By Operating Activities</b>                                   | <b>(328,380)</b>                                      | <b>(339,415)</b>   | <b>(1,423,372)</b>                     | <b>(1,889,349)</b> | <b>(12,355,146)</b>  |
| Cash Flow From Investing Activities:   |   |                    |  |                    |  |
| (Increase) Decrease in Other Investments   | (93)  |                    | 2,992                                  | (12,882)           | (9,983)  |
| Purchase of Mining, Milling and Other Property and<br>Equipment                  |   |                    |  |                    | (1,705,650)  |
| Proceeds on Sale of Mining, Milling and Other<br>Property<br>and Equipment       |   |                    |  |                    | 83,638   |
| Proceeds From Sale of Subsidiary   |   |                    |  | 1,492,131          | 2,131,616  |
| Expenses of Sale of Subsidiary   |   |                    |  |                    | (101,159)  |
| Advance Payments - Joint Venture   |   |                    |  |                    | 98,922   |
| Investment in Joint Venture  |   |                    |  |                    | (101,700)  |
| Investment in Privately Held Company   |   |                    |  |                    | (10,000)   |
| Net Assets of Business Acquired (Net of Cash)                                    |   |                    |  |                    | (42,130)   |
| Investment in Marketable Securities  |   |                    |  | (50,000)           | (50,000)   |
| <b>Net Cash Provided By Investing Activities</b>                                 | <b>(93)</b>   |                    | <b>2,992</b>                           | <b>1,429,249</b>   | <b>293,554</b>   |

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

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(Continued)

|  | For The Three Months<br>Ended<br>October 31, |                   | For The Year Ended<br>July 31, |                   | For The Period<br>September 17,<br>1982<br>(Inception)<br>To<br>October 31, 2004 |
|--|--|-------------------|--------------------------------|-------------------|--|
|  | 2004   | 2003              | 2004                           | 2003              | (Unaudited)  |
|  | (Unaudited)                                  | (Unaudited)       |                                |                   |  |
| Cash Flow From Financing Activities:   |  |                   |                                |                   |  |
| (Increase) in Loans Receivable - Affiliate   | \$   | \$ (139)          | \$ (7,668)                     | \$ (20,180)       | \$ (27,848)  |
| Increase (Decrease) in Loans Receivable - Others   |  | 325               | 16,300                         | (3,365)           | (2,065)  |
| Increase in Loans Payable - Officers   |  |                   |                                |                   | 18,673   |
| Repayment of Loans Payable - Officers  |  |                   |                                |                   | (18,673)   |
| Increase in Note Payable   |  |                   |                                |                   | 11,218   |
| Payments of Note Payable   |  |                   |                                |                   | (11,218)   |
| Proceeds From Issuance of Common Stock   | 226,820                                      | 82,400            | 1,253,988                      | 381,330           | 12,262,419   |
| Commissions on Sale of Common Stock  |  |                   |                                |                   | (5,250)  |
| Expenses of Initial Public Offering  |  |                   |                                |                   | (408,763)  |
| Capital Contributions - Joint Venture Subsidiary   |  | 112,516           | 100,156                        | 130,216           | 304,564  |
| Purchase of Certificate of Deposit - Restricted  |  |                   |                                |                   | (5,000)  |
| (Purchase) Sale of Mining Reclamation Bonds  |  |                   |                                | 6,600             | (30,550)   |
|  | <u>226,820</u>                               | <u>195,102</u>    | <u>1,362,776</u>               | <u>494,601</u>    | <u>12,087,507</u>  |
| Net Cash Provided By Financing Activities  |  |                   |                                |                   |  |
| Effect of Exchange Rate Changes  | 6,088  | 23,721            | 19,637                         | 62,476            | 86,963   |
| Increase (Decrease) In Cash and Cash Equivalents   | (95,565)                                     | (120,592)         | (37,967)                       | 96,977            | 112,878  |
| Cash and Cash Equivalents - Beginning  | 208,443                                      | 246,410           | 246,410                        | 149,433           |  |
| Cash and Cash Equivalents - Ending   | <u>\$ 112,878</u>                            | <u>\$ 125,818</u> | <u>\$ 208,443</u>              | <u>\$ 246,410</u> | <u>\$ 112,878</u>  |
| Supplemental Cash Flow Information:  |  |                   |                                |                   |  |
| Cash Paid For Interest   | \$   | \$                | \$                             | \$                | \$   |
| Cash Paid For Income Taxes   | \$   | \$                | \$ 4,095                       | \$ 2,433          | \$ 32,155  |
| Non-Cash Financing Activities:   |  |                   |                                |                   |  |
| Issuances of Common Stock as Commissions on Sales of Common Stock                        | \$ 18,200                                    | \$                | \$                             | \$                | \$ 440,495   |
| Issuance of Common Stock as Payment for Mining, Milling and Other Property and Equipment | \$   | \$                | \$                             | \$                | \$ 4,500   |

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





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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*  
*JULY 31, 2004*

(Information as of October 31, 2004 and 2003 and for the three months ended October 31, 2004 and 2003 and for the period September 17, 1982 (Inception) to October 31, 2004 is unaudited)

NOTE 1 - *Organization and Basis of Presentation*

Leadville Mining and Milling Corp. ( Leadville , the Company , we or us ) was incorporated in February 1982 in the State of Nevada. During March 2003 the Company s stockholders approved an amendment to the Articles of Incorporation to change its name from Leadville Mining and Milling Corp. to Capital Gold Corporation. The Company owns rights to property located in the California Mining District, Lake County, Colorado and in the State of Sonora, Mexico and is engaged in the exploration for gold and other minerals from its properties. Substantially all of the Company s mining activities are now being performed in Mexico. The Company is a development stage enterprise.

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 s assets consisted of certain exploitation and exploration concessions in the States of Sonora, Chihuahua and Guerrero, Mexico. We sometimes refer to these concessions 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 will be 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, we 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 financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company is a development stage enterprise and since its inception has had no mining revenues and has incurred recurring losses aggregating \$24,578,129. These factors raise substantial doubt about the Company s ability to continue as a going concern. As indicated in Note 16, the Company is in the process of raising additional capital and financing. Continuation of the Company is dependent on (1) consummation of financings, (2) achieving sufficiently profitable operations (3) subsequently maintaining adequate financing arrangements and (4) its exiting the development stage. The achievement and/or success of the Company s planned measures, however, cannot be determined at this time. These financial statements do not reflect any adjustments relating to the recoverability and classification of assets carrying amounts and classification of liabilities should the Company be unable to continue as a going concern.

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*  
*JULY 31, 2004*

(Information as of October 31, 2004 and 2003 and for the three months ended October 31, 2004 and 2003 and for the period September 17, 1982 (Inception) to October 31, 2004 is unaudited)

NOTE 2 - *Summary of Significant Accounting Policies*

*Principals of Consolidation*

The consolidated financial statements include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries. The Company accounted for its Mexican joint venture operation through the date of dissolution (see Note 5) as a subsidiary since it controlled the decision making process and it owned 69% of the venture. All significant intercompany accounts and transactions are eliminated in consolidation.

*Cash and Cash Equivalents*

The Company considers those short-term, highly liquid investments with original maturities of three months or less as cash and cash equivalents.

*Marketable Securities*

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities .

Management determines the appropriate classification of all securities at the time of purchase and re-evaluates such designation as of each balance sheet date. The Company has classified its marketable equity securities as available for sale securities and has recorded such securities at fair value. The Company uses the specific identification method to determine realized gains and losses. Unrealized holding gains and losses are excluded from earnings and, until realized, are reported in a separate component of stockholders' equity.

*Mining, Milling and Other Property and Equipment*

Mining, milling and other property and equipment is reported at cost. It is the Company's policy to capitalize costs incurred to improve and develop the mining and milling properties. General exploration costs and costs to maintain rights and leases are expensed as incurred. Management of the Company periodically reviews the recoverability of the capitalized mineral properties and mining equipment. Management takes into consideration various information including, but not limited to, historical production records taken from previous mine operations, results of exploration activities conducted to date, estimated future prices and reports and opinions of outside geologists, mine engineers, and consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or property.

Depletion of mining and milling improvements will be computed at cost using the units of production method. Depreciation will be computed using the straight-line method over the estimated useful lives of the related assets.

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*  
*JULY 31, 2004*

(Information as of October 31, 2004 and 2003 and for the three months ended October 31, 2004 and 2003 and for the period September 17, 1982 (Inception) to October 31, 2004 is unaudited)

NOTE 2 - *Summary of Significant Accounting Policies (Continued)*

*Impairment of Long-Lived Assets*

In accordance with SFAS 144, Accounting for the Impairment and Disposal of Long-Lived Assets the Company reviews its long-lived assets for impairments. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts. During the year ended July 31, 2003 the Company performed a review of its Colorado mine and mill improvements and determined that an impairment loss should be recognized. Accordingly, at July 31, 2003 the Company reduced by \$999,445 the net carrying value of certain assets relating to its Leadville, Colorado facility to \$300,000 and further reduced the net carrying value to \$0 at July 31, 2004, which approximates management's estimate of fair value.

*Fair Value of Financial Instruments*

The carrying value of the Company's financial instruments, including cash and cash equivalents, loans receivable, accounts payable and accrued expenses approximated fair value because of the short maturity of these instruments.

*Revenue Recognition*

Revenues, if any, from the possible sales of minerals will be recognized by the Company only upon receipt of final settlement funds from the purchaser.

*Foreign Currency Translation*

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

*Comprehensive Income (Loss)*

Comprehensive income (loss) which is reported on the accompanying consolidated statement of stockholders' equity as a component of accumulated other comprehensive income (loss) consists of accumulated foreign translation gains and losses and net unrealized gains and losses on available-for-sale securities.

*Income Taxes*

The Company records deferred income taxes using the liability method as prescribed under the provisions of SFAS No. 109. Under the liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and income tax bases of the Company's assets and liabilities. An allowance is recorded, based upon currently available information, when it is more likely than not that any or all of the deferred tax assets will not be realized. The provision for income taxes includes taxes currently payable, if any, plus the net change during the year in deferred tax assets and liabilities recorded by the Company.

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*  
*JULY 31, 2004*

(Information as of October 31, 2004 and 2003 and for the three months ended October 31, 2004 and 2003 and for the period September 17, 1982 (Inception) to October 31, 2004 is unaudited)

NOTE 2 - *Summary of Significant Accounting Policies (Continued)*

*Stock-Based Compensation*

The Company accounts for stock-based compensation to its employees using the intrinsic value method in accordance with provisions of the Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations which requires the recognition of compensation expense over the vesting period of the option when the exercise price of the stock option granted is less than the fair value of the underlying common stock. Additionally, the Company complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock Based Compensation ( SFAS 123 ) and provides pro forma disclosure of net loss and loss per share as if the fair value method has been applied in measuring compensation expense for stock options granted. Stock-based compensation related to options and warrants granted to non-employees is recognized using the fair value method in accordance with SFAS 123 and Emerging Issues Task Force ( EITF ) No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services . Compensation costs are amortized in a manner consistent with Financial Accounting Standards Board Interpretation No. 28 (FIN No. 28), Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans . The Company uses the Black-Scholes options pricing model to value options, restricted stock grants and warrants granted to nonemployees.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure . SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for the year ended December 31, 2003. SFAS No. 148 did not have a material impact on the Company s consolidated financial statements, as the adoption of this standard does not require the Company to change, and the Company does not plan to change, to the fair value based method of accounting for stock-based compensation.

*Net Loss Per Common Share*

The computation of basic net loss per share of common stock is computed by dividing net loss for the period by the weighted average number of common shares outstanding during that period.

Because the Company is incurring losses, the effect of stock options and warrants is antidilutive. Accordingly, the Company s presentation of diluted net loss per share is the same as that of basic net loss per share.

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consists 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.

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NOTE 2 - *Summary of Significant Accounting Policies (Continued)*

*Use of Estimates*

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

*Environmental Remediation Costs*

Environmental remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. It is reasonably possible that the Company's estimates of reclamation liabilities, if any, could change as a result of changes in regulations, extent of environmental remediation required, means of reclamation or cost estimates. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. There were no environmental remediation costs accrued at July 31, 2004.

*Recently Issued Accounting Pronouncements*

Statement of Financial Accounting Standards ( SFAS ) No. 146, Accounting for Costs Associated with Exit or Disposal Activities , SFAS No. 147, Acquisitions of Certain Financial Institutions and Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9 , SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities , and SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , were recently issued. SFAS No. 146, 147, 149 and 150 have no current applicability to the Company or their effect on the financial statements would not have been significant.

*Reclassifications*

Certain items in these financial statements have been reclassified to conform to the current period presentation.

NOTE 3 - *Marketable Securities*

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

|   | <u>October 31, 2004</u> | <u>July 31, 2004</u> |
|---|-------------------------|----------------------|
|   | <u>(Unaudited)</u>      |                      |
| Marketable equity securities, at cost       | \$ 50,000               | \$ 50,000            |
| Marketable equity securities, at fair value | \$ 175,000              | \$ 110,000           |



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NOTE 4 - *Loans Receivable - Others*

Loans receivable - others are short-term non-interest bearing loans made to an individual.

NOTE 5 - *Joint Venture*

On February 23, 2002, Minera Santa Rita S. de R.L. de C.V., one of our wholly-owned Mexican subsidiaries, entered into a joint venture agreement with Grupo Minero FG S.A. de C.V. to explore, evaluate and develop the El Chanate concessions. Grupo Minero FG S.A. de C.V., referred to as FG, is a private Mexican company.

Pursuant to the agreement with FG, the venture was to be conducted in five phases. The first two phases entailed continued exploration and evaluation of the mining potential of lots within the concessions.

Pursuant to the agreement, FG has paid us \$75,000 to participate in the venture and contributed an additional \$75,000 towards the first phase of the venture for which it received a 30% interest in the venture. The balance of the costs for Phase one and the costs for Phase two were to be split equally between the parties.

On April 6 and 8, 2004, effective March 31, 2004, Minera Santa Rita S. de R.L. de C.V. ( MSR ), one of our wholly-owned Mexican affiliates, and FG executed an agreement (the Termination Agreement ) terminating their joint venture agreement (the JV Agreement ) with regard to the El Chanate project in Mexico.

Pursuant to the Termination Agreement, the parties have terminated amicably the JV Agreement and have released each other from all obligations under the JV Agreement. In consideration of FG's contributions to the venture of \$457,455, we issued to FG 2,000,000 restricted shares of our common stock valued at \$800,000 and MSR issued to FG a participation certificate entitling FG to receive five percent of the MSR's annual dividends, when declared. In connection with the issuance of these 2,000,000 shares, the Company recognized a charge to operations of \$800,000. Additionally, the Company has recognized a loss of \$150,382 on the write off of the joint venture minority interest. The participation certificate also gives FG the right to participate, but not to vote, in the meetings of MSR's Board of Managers, Technical Committee and Partners. MSR also received a right of first refusal to carry out the works and render construction services required to effectuate the El Chanate project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services.

FG has assigned or otherwise transferred to MSR all permits, licenses, consents and authorizations (collectively, authorizations ) for which FG had obtained in its name in connection with the development of the El Chanate project to the extent that the authorizations are assignable. To the extent that the authorizations are not assignable or otherwise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued or re-granted in MSR's name. The foregoing has been accomplished.



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NOTE 6 - *Sale of Subsidiary Stock*

On March 20, 2002, the Company sold all of the issued and outstanding shares of stock of its wholly-owned subsidiary, Minera Chanate S.A. de C.V. ( Minera Chanate ), to an unaffiliated party for a purchase price of \$2,131,616, payable in three installments. We received the first installment of \$639,485 and paid commissions of \$51,159 in March 2002. A second payment of \$497,377 plus interest at the rate of 4.5% per annum was paid in August 2002. A third payment of \$994,754 plus interest at the rate of 4.5% per annum, was paid in December 2002. Commissions of \$41,733 and \$80,821 were paid in connection with the second and third installments, respectively. In connection with the above transaction the Company recognized a gain of \$1,907,903.

During March 2002, prior to the sale of Minera Chanate and pursuant to the FG joint venture agreement (see Note 5), Minera Chanate, in a series of transactions, sold all of its surface land and mining claims to Oro de Altar S. de R.L. de C.V. ( Ora ), another of our wholly-owned subsidiaries. Ora, in turn, leased the foregoing land and mining claims to MSR.

NOTE 7 - *Mining Reclamation Bonds*

These represent certificates of deposit that have been deposited as security for Mining Reclamation Bonds in Colorado. They bear interest at rates varying from 5.01% to 5.87% annually and mature at various dates in 2005.

NOTE 8 - *Mining Concessions*

Mining concessions consists of the following:

|                    | <b>October 31, 2004</b> | <b>July 31, 2004</b> |
|--------------------|-------------------------|----------------------|
|                    | <b>(Unaudited)</b>      |                      |
| Mining Concessions | \$ 44,780               | \$ 44,780            |

These exploitation and exploration concessions are carried at historical cost and were acquired in connection with the purchase of the stock of Minera Chanate, S.A. de C.V. (see Note 1).

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NOTE 9 - *Loans Receivable Affiliate*

Loans receivable - affiliate consist of expense reimbursements from a publicly-owned corporation in which the Company has an investment. In addition, 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 12).

NOTE 10 - *Other Investments*

Other investments are carried at cost and consist of tax liens purchased on properties located in Lake County, Colorado.

NOTE 11 - *Other Comprehensive Income (Loss) Supplemental Non-Cash Investing Activities*

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

|   |    |          |
|---|----|----------|
| Balance July 31, 2002   | \$ | (7,246)  |
| Equity Adjustments from Foreign<br>Currency Translation             |    | 60,879   |
|   |    | 53,633   |
| Balance July 31, 2003   |    | 53,633   |
| Equity Adjustments from Foreign<br>Currency Translation             |    | (24,894) |
| Unrealized Gains on Marketable Securities                           |    | 60,000   |
|   |    | 88,739   |
| Balance July 31, 2004   |    | 88,739   |
| Equity Adjustments from Foreign<br>Currency Translation (Unaudited) |    | 5,884    |
| Unrealized Gains on Marketable Securities (Unaudited)               |    | 65,000   |
|   |    | 159,623  |
| Balance October 31, 2004 (Unaudited)                                | \$ | 159,623  |

NOTE 12 - *Related Party Transactions*

In August 2002 the Company purchased marketable equity securities of a related company. The Company recorded approximately \$2,300, \$2,400, \$12,300 and \$18,900 in expense reimbursements including office rent from this entity for the three months ended October 31, 2004 and 2003, respectively and for the years ended July 31, 2004 and 2003, respectively (see Notes 3 and 9).

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NOTE 13 - *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, 2004, the Company issued 1,926,732 shares for gross proceeds for \$226,820. During the three months ended October 31, 2004, the Company issued 259,507 shares of common stock for services rendered valued at \$29,260. During the three months ended October 31, 2004 the Company issued 151,666 shares of common stock valued at \$18,200 as commissions on the sale of common stock.

During the three months ended October 31, 2003, the Company issued 1,063,561 shares for gross proceeds of \$82,400. During the three months ended October 31, 2003, the Company issued 2,500 shares of common stock valued at \$300 as commissions on the sale of common stock.

During the year ended July 31, 2003, the Company issued 2,802,579 shares for gross proceeds of \$346,030. During the year ended July 31, 2003 the Company issued 1,222,727 shares of common stock upon exercising of stock options with gross proceeds of \$35,300.

During the year ended July 31, 2004, the Company issued 8,748,569 shares for gross proceeds of \$1,145,886. During the year ended July 31, 2004 the Company issued 2,335,553 shares of common stock upon exercising of stock options with gross proceeds of \$108,100. During the year ended July 31, 2004 the Company issued 2,000,000 shares in connection with the termination of our Joint Venture Agreement (see Note 5).

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NOTE 13 - *Stockholders' Equity* (Continued)

*Stock Options*

A summary of stock option activity for the years ended July 31, 2004 and 2003 and for the three months ended October 31, 2004 is as follows:

|                  |   | <b>Options Outstanding</b>  |                                  | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|------------------|---|-----------------------------|----------------------------------|--|
|                  |   | <b>Number of<br/>Shares</b> | <b>Price Range<br/>Per Share</b> |  |
| Outstanding      | July 31, 2002                                     | 12,027,370                  | \$ .022-.50                      | \$ .199  |
| Options Granted: |   |                             |                                  |  |
|                  | Related Parties                                   | 700,000                     | .05                              | .05  |
|                  | Others  | 1,250,000                   | .05-.25                          | .11  |
| Exercised:       |   |                             |                                  |  |
|                  | Related Parties                                   | (1,122,727)                 | .022-.05                         | .022   |
|                  | Others  | (100,000)                   | .05                              | .022   |
|                  | Expired   | (2,657,727)                 | .022-.22                         | .071   |
| Outstanding      | July 31, 2003                                     | 10,096,916                  | .022-.50                         | .11  |
| Options Granted: |   |                             |                                  |  |
|                  | Related Parties                                   | 1,500,000                   | .21                              | .21  |
|                  | Others  | 300,000                     | .12-.41                          | .15  |
| Exercised:       |   |                             |                                  |  |
|                  | Related Parties                                   | (572,727)                   | .022-.05                         | .04  |
|                  | Others  | (1,762,826)                 | .022-.12                         | .05  |
|                  | Expired   | (2,672,727)                 | .022-.05                         | .03  |
| Outstanding      | July 31, 2004 and<br>October 31, 2004 (Unaudited) | 6,888,636                   | \$ .022-.41                      | \$ .11   |

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NOTE 13 - *Stockholders' Equity* (Continued)

Options to purchase 6,888,636 shares of common stock were exercisable at July 31, 2004 at a weighted average exercise price of \$.11 with a weighted average contractual life of .75 years as follows:

Options Outstanding and Exercisable by Price Range as of July 31, 2004 is as follows:

| Range of Exercise Prices | Options Outstanding |   |                                 | Options Exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable  | Weighted Average Exercise Price |
| \$.022                   | 318,182             | .63   | \$.022                          | 318,182             | \$.022                          |
| .25                      | 200,000             | .67   | .25                             | 200,000             | .25                             |
| .05                      | 4,570,454           | .61   | .05                             | 4,570,454           | .05                             |
| .20                      | 100,000             | .50   | .20                             | 100,000             | .20                             |
| .24                      | 100,000             | 2.91  | .24                             | 100,000             | .24                             |
| .21                      | 1,500,000           | 2.63  | .21                             | 1,500,000           | .21                             |
| .41                      | 100,000             | 2.63  | .41                             | 100,000             | .41                             |
| \$.022-.41               | 6,888,636           | .75   | \$.11                           | 6,888,636           | \$.11                           |

The Company recognized approximately \$348,000 and \$289,000 of stock-based compensation expense during the years ended July 31, 2004 and 2003 respectively, relating to options granted.

Pro forma information regarding net income and earnings per share is required by Statement 123, and has been determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes options pricing model with the following weighted-average assumptions: risk-free interest rate of 3.1%; volatility factor of the expected market price of the Company's common stock of .7-1.0; and a weighted-average expected life of the option of 3 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Had compensation cost for stock options granted been determined based on the fair value at the grant date consistent with the provisions of SFAS 123, the Company's net loss and net loss per share for the year ended July 31, 2004 would have been \$(3,252,590) and \$(.06). There would have been no material impact on the net loss and net loss per share for the year ended July 31, 2003.

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The effects of applying the pro forma disclosures of SFAS 123 are not likely to be representative of the effects on reported net earnings for future years.

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NOTE 13 - *Stockholders' Equity (Continued)*

*Authorized Common Stock*

In September 1993 the Company's shareholders approved an increase in the authorized common stock from 100,000,000 shares to 150,000,000 shares.

Effective April 11, 1998 the Company underwent a 1 for 10 reverse split with all fractions being rounded up into new common stock.

All references to common stock are restated to reflect the 1 for 10 reverse split.

NOTE 14 - *Income Taxes*

For income tax purposes, the Company has available net operating loss carryforwards ( NOL ) at July 31, 2004 of approximately \$12,082,000 to reduce future federal taxable income, if any. The NOL's expire at various dates through 2024. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

Income tax benefit attributable to net loss differed from the amounts computed by applying the statutory Federal Income tax rate applicable for each period as a result of the following:

|   | <b>Year Ended July 31,</b> |              |
|---|----------------------------|--------------|
|   | <b>2004</b>                | <b>2003</b>  |
| Computed expected tax benefit   | \$ 4,107,880               | \$ 3,353,517 |
| Decrease in tax benefit resulting from net operating loss for which no benefit is currently available | 4,107,880                  | 3,353,517    |
|   | \$                         | \$           |

The Company has deferred tax assets of approximately \$4,107,880 at July 31, 2004 resulting primarily from net operating loss carryforwards. The deferred tax assets have been fully offset by a valuation allowance resulting from the uncertainty surrounding their future realization. The difference between the federal statutory rate of 34% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of \$754,363 and \$190,497 in 2004 and 2003, respectively.

NOTE 15 - *Loss on Option*

In March 2004 the Company obtained exclusive non-refundable options to purchase an ore crusher and related assets for a total cost of \$700,000. The Company paid \$50,000 for these options, which ultimately expired. Accordingly, the Company realized a loss of \$50,000.





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NOTE 16 - *Liquidity and Going Concern Uncertainty*

The Company is a development stage enterprise with no mining revenues and has incurred recurring losses amounting to \$24,578,129 through July 31, 2004. The Company incurred net losses of \$356,095 and \$293,887 during the three months ended October 31, 2004 and 2003, respectively. The Company incurred net losses of \$2,938,590 and \$1,919,261 during the years ended July 31, 2004 and 2003, respectively. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern (see Note 1).

There can be no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available from external sources such as debt or equity financings or other potential sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on the Company's existing stockholders.

The accompanying consolidated financial statements do not include any adjustments related to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be able to continue as a going concern.

During the year ended July 31, 2004, the Company has successfully obtained external financing through sales of its stock and exercise of options as well as capital contributions.

The Company has developed a plan to address liquidity and fund a full scale mining operation in Mexico in several ways, namely:

Continue to raise capital through the sale or exercise of equity securities.

Obtain outside financing to fund operations.

Strategic Partner Joint Venturing.

Other means.

There is no assurance, however, that any of the Company's proposed plans to obtain financing, raise capital and otherwise fund operations will prove successful. The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient funding as discussed above and its inability to do so will delay or cease the Company's planned operations as discussed above.

NOTE 17 - *Commitments and Contingencies*

*Minera Chanate Option*

Under the terms of the Minera Chanate purchase agreement, Leadville has granted AngloGold's designee to receive a one-time option to purchase 51% of Minera Chanate (or such entity that owns the Minera Chanate concessions at time of exercise) based upon the achievements of certain events (see Note 1).

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NOTE 17 - *Commitments and Contingencies (Continued)*

*Lease Commitments*

The Company occupies office space in New York City under a non cancelable operating lease that commenced on September 1, 2002 and terminates on August 31, 2007. In addition to base rent, the lease calls for payment of utilities and other occupancy costs.

Approximate future minimum payments under this lease are as follows:

| Year Ending July 31, |            |
|----------------------|------------|
| 2005                 | \$ 54,000  |
| 2006                 | 55,000     |
| 2007                 | 38,000     |
|                      | <hr/>      |
|                      | \$ 147,000 |
|                      | <hr/>      |

Rent expense under the office lease in New York City was approximately \$57,000 and \$56,000 for the years ended July 31, 2004 and 2003, respectively.

*Lack of Insurance*

The Company currently has no insurance in force at its mining properties and it cannot be certain that it can cover the risks associated with its mining operations or that it will be able to maintain insurance to cover these risks at economically feasible premiums.

NOTE 18 - *Subsequent Events (Unaudited)*

*February 2005 Private Placement*

Pursuant to a private placement that closed in February 2005 we issued 27,200,004 shares of our common stock and warrants to purchase an aggregate of up to 27,200,004 shares of our common stock for an aggregate gross purchase price of approximately \$6.8 million and we received approximately \$6.1 million in net proceeds. The Warrant issued to each purchaser is exercisable for one share of our common stock, at an exercise price equal to \$.30 per share. Each Warrant has a term of two years and is fully exercisable from the date of issuance. We issued to the placement agent two year warrants to purchase up to 2,702,000 shares of our common stock at an exercise price of \$.25 per share. Such placement agent warrants are valued at approximately \$414,000 using the Black-Scholes option pricing method.

We have agreed to file with the Securities and Exchange Commission a registration statement covering resales of the foregoing shares and shares issuable upon the exercise of the foregoing warrants (collectively, the registrable shares). We also agreed to prepare and file all amendments and supplements necessary to keep the registration statement effective until the earlier of the date on which the selling stockholders may resell all the registrable shares covered by the registration statement without volume restrictions pursuant to Rule 144(k) under the Securities Act or any successor rule of similar effect and the date on which the selling stockholders have sold all the shares covered by the registration statement.



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NOTE 18 - *Subsequent Events* (Unaudited) (Continued)

*February 2005 Private Placement* (Continued)

In addition, we agreed to have our common stock listed for trading on the Toronto Stock Exchange or the TSX Venture Exchange.

If our common stock is not listed for trading on the Toronto Stock Exchange or the TSX Venture Exchange or the registration statement is not declared effective by the SEC within 180 days after February 8, 2005, then we will be required to issue to these selling stockholders an additional number of shares of our common stock that is equal to 20% of the number of shares acquired by them in the private placement. In addition, if the registration statement is not declared effective by the SEC within 180 days after February 8, 2005 or, after the registration statement is declared effective by the SEC, subject to certain exceptions, sales of all shares so registered cannot be made pursuant to the registration statement, then we will be required to pay to these selling stockholders in cash or, at our option in shares, their pro rata share of 0.0833% of the aggregate market value of the registrable shares held by these selling stockholders for each month thereafter until the registration statement is declared effective or sales of the registrable shares can again be made pursuant to the registration statement, as the case may be.

*Project Finance Facility*

On February 2, 2005, we mandated Standard Bank London Limited as the exclusive arranger of a project finance facility of up to US\$10 million for our El Chanate gold mining project and associated hedging. We anticipate that Standard Bank will administer the loan and the hedging throughout the construction and operational phases of the project.

Although the specific terms of the proposed financing are subject to alteration, we anticipate, among other things, that the loan would mature in five years after the initial draw and bear interest at a rate linked to the 1,2,3 or 6 month Libor rate. The loan would be secured by our assets and supported by our guarantee. In addition, we will be required to deposit all cash proceeds we receive from operations and other sources in an off-shore account. Absent default by us under the finance documents, we may use funds from this account for specific purposes such as approved operating costs, budgeted capital expenditures, hedging costs and funds payable to Standard Bank under the finance documents. We would be required to meet and maintain certain financial covenants and we would be required to conform to certain negative covenants such as restrictions on sale of assets. We also would be required to enter into a gold price protection program that mitigates the gold price risk by purchasing price protection in a manner satisfactory to the lender.

As required by the mandate, we issued to Standard Bank 1,000,000 common stock purchase warrants and paid an initial cash fee of \$100,000. Such warrants have been valued at approximately \$253,000 using the Black-Scholes option pricing model and will be reflected as deferred financing costs as a reduction of stockholders' equity on the Company's balance sheet. Such costs will be amortized to operations over the life of the debt and in the event the transaction with Standard Bank is not consummated, such costs will be charged to operations immediately. The initial cash fee of \$100,000 will be recorded as prepaid debt issuance costs on the Company's balance sheet. Such costs will be amortized to operations over the life of the debt and in the event the transaction with Standard Bank is not consummated, such costs will be charged to operations immediately. If Standard Bank determines to proceed with the funding, we will be required to pay certain additional fees of \$300,000 and issue to Standard Bank an additional 14,600,000 common stock purchase warrants.

*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*  
*JULY 31, 2004*

(Information as of October 31, 2004 and 2003 and for the three months ended October 31, 2004 and 2003 and for the period September 17, 1982 (Inception) to October 31, 2004 is unaudited)

NOTE 18 - *Subsequent Events* (Unaudited) (Continued)

Per our arrangement with Standard Bank, the shares issuable upon exercise of the 1,000,000 common stock purchase warrants are registered herein for public resale. We also will be required to so register the shares issuable upon exercise of the additional 14,600,000 warrants if and when these warrants are issued. The warrants may be exercised at a price equivalent to the lower of a) \$.32 per share and b) the Company's common share price at the closing date, but in no case less than \$.30 per share.

This mandate is not a commitment to provide the funding. Funding is subject to satisfactory completion of due diligence, approvals from Standards Bank's credit committee and execution of definitive documentation.

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63,690,644 SHARES OF  
COMMON STOCK

**CAPITAL GOLD CORPORATION**

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PROSPECTUS

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March \_\_, 2004

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No dealer, salesman or any other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted. The information contained in this Prospectus is current only as of this date.

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**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Nevada's General Corporation Law permits us to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of our company (such as a shareholder derivative suit), by reason of the fact that such person is or was one of our directors, officers, employees or agents, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise. Such indemnification may extend to expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonable incurred by such person in connection with the action, suit or proceeding if he acted in good faith and in a manner which he reasonable believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Indemnification may not be made for any claim, issue or matter as to which such a person has been adjudged by a court to be liable to us or for amounts paid in settlement to us, unless the court in which the action or suit was brought, or another court of competent jurisdiction, determines that in view of all the circumstances, the person is fairly and reasonably entitled to be indemnified for such expenses.

**ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

|                                  |              |
|----------------------------------|--------------|
| SEC Filing Fees                  | \$ 2,398.85  |
| Printing and Engraving Expenses* | \$ 10,000.00 |
| Accounting Fees and Expenses*    | \$ 20,000.00 |
| Legal Fees and Expenses*         | \$ 40,000.00 |
| Miscellaneous*                   | \$ 6,601.15  |
|                                  | <hr/>        |
| Total Expenses*                  | \$ 79,000.00 |

\* Estimated.

**ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES.**

Since February 1, 2002, we have issued and sold the following securities:

During the fiscal year ended July 31, 2002, we issued the following shares of our common stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold an aggregate of 4,247,359 shares for an aggregate of \$353,031 to 15 persons. We also issued 472,665 shares to two individuals for commissions related to sales of common stock. In addition we issued 2,342,294 shares for gross proceeds of \$51,531 from the exercise of options. We also issued 35,950 shares to one individual for services rendered.



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During the fiscal year ended July 31, 2003, we issued the following shares of our common stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold an aggregate of 2,802,579 shares for an aggregate of \$346,030 to 19 persons. We issued 1,227,727 shares of common stock upon exercise of options for gross proceeds of \$35,300. We also issued 14,363 shares to one individual for administrative services.

During the fiscal year ended July 31, 2004, we issued the following shares of our common stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold an aggregate of 8,748,569 shares for an aggregate of \$1,145,886 to 94 persons. In addition, we issued 757,727 shares of common stock and received gross proceeds of \$ 28,100 from the exercise of options by officers and directors, and we issued 1,612,826 shares of common stock for gross proceeds of \$80,003 to unrelated parties upon exercise of options. We also issued 7,500 shares for services rendered. We also issued 2,000,000 of our common stock in connection with the termination of our Joint Venture Agreement. We also issued 250,000 common stock options each to Messrs. Dieterle, Roningen, Pritchard, Everett and Newell, and one of our employees exercisable at \$.22 per share expiring on May 25, 2007.

During the quarter ended October 31, 2004, we issued the following shares of our common stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold 1,926,732 shares for \$226,820 to 22 persons. We also issued 259,507 shares of common stock for services rendered, and we issued 151,666 shares of common stock as commissions on the sales of common stock.

In February 2005, we closed a private placement of 27,200,004 shares of our Common Stock and warrants to 20 investors to purchase an aggregate of up to 27,200,004 shares of our Common Stock. The aggregate offering price was approximately \$6,800,000. IBK Capital Corp. acted as Placement Agent. We paid a 9% cash fee to the placement agent and issued to the placement agent warrants to purchase up to 2,702,000 shares of our Common Stock. In addition, we issued 1,000,000 common stock purchase warrants to Standard Bank. The foregoing securities were issued pursuant to exemptions from registration provided by Regulation S and Rule 506 of the Securities Act of 1933. In addition to the foregoing, during the period from November 1, 2004 through the date hereof, we issued the following shares of our Common Stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold an aggregate of 2,002,878 shares (including shares issued upon exercise of options) for an aggregate of approximately \$231,500 to 23 persons.

### ITEM 27. EXHIBITS.

| <i>Exhibit No.</i> | <i>Description</i>  |
|--------------------|---|
| 3.a                | Certificate of Incorporation of Company(1)  |
| 3.b                | Amendments to Certificate of Incorporation of Company (1)(5)                                  |
| 3.c                | By-Laws of Company (1)  |
| 4.1                | Specimen certificate representing our Common Stock  |
| 4.2                | Form of Warrant for Common Stock of the Company issued in February 2005 private placement.(8) |
| 4.3                | Form of Warrant for Common Stock of the Company issued to Standard Bank.*                     |
| 5.1                | Opinion of Richard Feiner, Esq., legal counsel.*  |

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- 10.a Mining Claims (1)
- 10.b Stock Purchase Option Agreement from AngloGold (2)
- 10.c Letter of Intent with International Northair Mines Ltd. (2)
- 10.d March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement (Sale by us and Holding of all of the stock of Minera Chanate) (In Spanish).(3)
- 10.e English summary of March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement.(3)
- 10.f Agreement between Santa Rita and Grupo Minero FG.(4)
- 10.g Amendment to Agreement between Santa Rita and Grupo Minero FG.(6)
- 10.h Termination Agreement between Santa Rita and Grupo Minero FG.(7)
- 21 Subsidiaries of the Registrant.
- 23.1 Consent of Wolinetz, Lafazan & Company, P.C., independent registered public accountants.
- 23.2 Consent of Richard Feiner, Esq., legal counsel (included in Exhibit 5.1).
- 24.1 Powers of Attorney (included in Signature Pages to this Registration Statement on Form SB-2).

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\* To be filed by amendment.

- (1) Previously filed as an exhibit to the Company's Registration Statement on Form S-18 (SEC File No. 2-86160-NY) filed on or about November 10, 1983, and incorporated herein by this reference.
- (2) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 2001 filed with the Commission on or about March 16, 2001, and incorporated herein by this reference.
- (3) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 2002 filed with the Commission on or about June 20, 2002, and incorporated herein by this reference.
- (4) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 2002 filed with the Commission on or about March 25, 2002, and incorporated herein by this reference.
- (5) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about April 11, 2003, and incorporated herein by this reference.
- (6) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about January 22, 2004, and incorporated herein by this reference.
- (7) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about April 12, 2004, and incorporated herein by this reference

- (8) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about February 10, 2005, and incorporated herein by this reference

**ITEM 28. UNDERTAKINGS**

The undersigned registrant hereby undertakes:

(1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Sections 10(a) (3) of the Securities Act of 1933 (the Act );

(ii) Reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective Registration Statement;

(iii) Include any additional or changed material information on the plan of distribution;

(2) That, for the purpose of determining any liability under the Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities that remain unsold at the end of the offering.

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the small business issuer will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirement of the Securities Act of 1933, this Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of New York, State of New York, on the 8th day of March, 2005.

**CAPITAL GOLD CORPORATION**

(Registrant)

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle, President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities indicated on the dates indicated.

**KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below constitutes and appoints Gifford A. Dieterle acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person in his name, place and stead, in any and all capacities, in connection with the Registrant's Registration Statement on Form SB-2 under the Securities Act of 1933, including, without limiting the generality of the foregoing, to sign the Registration Statement in the name and on behalf of the Registrant or on behalf of the undersigned as a director or officer of the Registrant, and any and all amendments or supplements to the Registration Statement, including any and all stickers and post-effective amendments to the Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorney-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

| <u>Signature</u>                               | <u>Title</u>   | <u>Date</u>   |
|--|--|---------------|
| s/Gifford A. Dieterle<br>Gifford A. Dieterle.  | President, Treasurer, Principal financial and Accounting officer and Chairman of the Board | March 8, 2005 |
| s/Jack V. Everett<br>Jack V. Everett.          | Director   | March 8, 2005 |
| s/Robert N. Roningen<br>Robert N. Roningen     | Director   | March 8, 2005 |
| s/Roger A. Newell<br>Roger A. Newell           | Director   | March 8, 2005 |
| s/Jeffrey W. Pritchard<br>Jeffrey W. Pritchard | Director   | March 8, 2005 |



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Capital Gold Corporation  
Form SB-2  
Index to Exhibits

*Exhibit No. Description*

- 4.1 Specimen certificate representing our Common Stock
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Wolinetz, Lafazan & Company, P.C., independent registered public accountants