

CAPITAL GOLD CORP  
Form 10-K  
October 14, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED JULY 31, 2010  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission File No. 001-34618

CAPITAL GOLD CORPORATION  
(Exact name of registrant as specified in its charter)

State of Delaware            13-3180530  
(State or other            (I.R.S. Employer  
jurisdiction of  
Incorporation or            Identification No.)  
organization)

76 Beaver Street, 14th 10005  
Floor, New York, New  
York  
(Address of principal    (Zip Code)  
executive offices)

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

Securities registered under Section 12(b) of the Act: none  
Securities registered under Section 12(g) of the Act: Common Stock, par value \$.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

- Large accelerated filer                       Accelerated filer  
 Non-accelerated filer                       Smaller Reporting Company
-

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

Yes  No

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

Yes  No

The aggregate market value of the voting and non-voting common equity on January 31, 2010 held by non-affiliates computed by reference to the closing price of the issuer's Common Stock on that date, was \$95,199,958 based upon the closing price (\$2.94) multiplied by the 32,380,938 shares of the issuer's Common Stock held by non-affiliates.

The number of shares outstanding of each of the issuer's classes of common equity as of October 1, 2010: 61,202,028.

The Proxy Statement of Capital Gold Corporation to be filed in connection with our 2011 Annual Meeting of Stockholders is incorporated in Part III hereof, as specified herein.

CAPITAL GOLD CORPORATION  
Form 10-K  
July 31, 2010

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GLOSSARY OF TECHNICAL TERMS

- Reserve: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Reserves must be supported by a feasibility study done to bankable standards that demonstrates the economic extraction ("Bankable standards" implies that the confidence attached to the costs and achievements developed in the study is sufficient for the project to be eligible for external debt financing.) A reserve includes adjustments to the in-situ tonnes and grade to include diluting materials and allowances for losses that might occur when the material is mined.
- Proven Reserve: Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape depth and mineral content of reserves are well-established.
- Probable Reserve: Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
- Mineralized Material The term "mineralized material" refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
- Non-reserves The term "non-reserves" refers to mineralized material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
- Exploration Stage An "exploration stage" prospect is one which is not in either the development or production

stage.

Development Stage A “development stage” project is one which is undergoing preparation of an established commercially mineable deposit for its extraction but which is not yet in production. This stage occurs after completion of a feasibility study.

Production Stage A “production stage” project is actively engaged in the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product.

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ADDITIONAL DEFINITIONS

Caliche:	Sediment cemented by calcium carbonate near surface.
Diorite:	Igneous Rock (Rock formed from magma or molten rock).
Dore:	Bars of low purity precious metal (Gold & Silver) which represents final product of a gold mine typically weighing 25 kg per bar.
Dikes:	Tabular, vertical bodies of igneous rock.
Fissility:	Shattered, broken nature of rock.
Fracture 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.
Hydrometallurgical Plant:	A metallurgical mineral processing plant that uses water to leach or separate and concentrate elements or minerals.
Intercalated:	Mixed in.
Lithostatic Pressure:	Pressure brought on by weight of overlaying rocks.
Major Intrusive Center:	An area where large bodies of intrusive igneous rock exist and through which large amounts of mineralizing fluids rose.
Mesothermal:	A class of hydrothermal ore deposit formed at medium temperatures and a depth over one mile in the earth's crust.
Microporphyrritic 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.
PPM:	Part per million.
Pyritized:	Partly replaced by the mineral pyrite.
Reverse Circulation Drilling (or R.C. 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.



Sericitized:	Rocks altered by heat, pressure and solutions resulting in formation of the mineral sericite, a very fine grained mica.
Siltstone:	A sedimentary rock composed of clay and silt sized particles.
Silicified:	Partly replaced by silica.
Stockwork Breccia:	Earth's crust broken by two or more sets of parallel faults converging from different directions.
Stockwork:	Ore, when not in strata or in veins but in large masses, so as to be worked in chambers or in large blocks.
Surface Mine:	Surface mining by way of an open pit without shafts or underground working.

## PART I

### Item 1. Business

Capital Gold Corporation (the “Company”) is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate project as well as the development of our Orion Project in the State of Nayarit Mexico. Through our recent acquisition of Nayarit Gold, Inc. (“Nayarit”) on August 2, 2010, we control approximately 257,000 acres (104,000 hectares) of mining concessions known as the Orion Project. The Orion Project lies in the Sierra Madre Occidental, a prolific mining district in Western Mexico. We also conduct gold exploration in other locations in Sonora, Mexico. (The financial data in this discussion is in thousands, except where otherwise specifically noted.)

On February 10, 2010, Capital Gold Corporation entered into a business combination agreement (the “Nayarit Business Combination Agreement”), as amended and extended, with Nayarit, a corporation organized under the Ontario Business Corporation Act (“OBCA”) pursuant to which, on August 2, 2010, Nayarit became a wholly-owned subsidiary of Capital Gold (the “Nayarit Business Combination”). We effected the amalgamation (the “Amalgamation”) of Nayarit and a corporation, organized under the OBCA as a wholly-owned subsidiary of the Company (“Merger Sub”), to form a combined entity (“AmalgSub” or “Surviving Company”), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub cease, and AmalgSub, as the surviving company in the Amalgamation, continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Nayarit Business Combination Agreement, all of the Nayarit shares of common stock (the “Nayarit Common Shares”) issued and outstanding immediately prior to the consummation of the Nayarit Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) were exchanged into the Company’s common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share (the “Amalgamation Consideration”).

On October 1, 2010, the Company and Gammon Gold Inc. (“Gammon Gold”) entered into a definitive merger agreement pursuant to which, if consummated, Gammon Gold will acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the “Gammon Transaction”). The total consideration for the purchase of 100% of the fully diluted shares of Capital Gold is approximately US\$288 million or US\$4.57 per Capital Gold share based on Gammon Gold’s closing price on September 24, 2010 on the NYSE. The Gammon Transaction has the unanimous support of both companies’ Boards of Directors and Officers. Under the terms of the Gammon Transaction, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US\$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold’s shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. The consummation of the Gammon Transaction is subject to numerous contingencies as described in the related merger agreement including, but not limited to, Capital Gold stockholder approval.

#### Sonora, Mexico Concessions

Through wholly-owned subsidiaries, Capital Gold Corporation owns 100% of 21 mining concessions located in the State of Sonora, Republic of Mexico totaling approximately 9,665 hectares (23,873 acres or 37.3 square miles). We commenced mining operations on two of these concessions in late March 2007 and achieved gold production and revenue from operations in early August 2007. We sometimes refer to the operations on these two concessions as the El Chanate Project.

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

In January 2010, we initiated an additional drill campaign at Saric that consisted of 13 core holes totaling approximately 1,100 meters. The drilling was completed on February 23, 2010 and targeted the existing mineralized structure to confirm the geologic interpretation and confirm the accuracy of previous reverse circulation drilling. The drill hole samples were assayed by ALS Chemex. Currently, we are planning to initiate a geophysical survey in late 2010. The intention of the geophysical survey is to assist us in determining the focus of our next drill campaign. We are also continuing our work on an updated environmental report.

#### Orion Project

The Orion Project lies in the prolific Sierra Madre Occidental, which hosts numerous multi-million ounce gold-silver deposits. The Orion Project is one of the larger contiguous concessions in the Sierra Madre, composed of 257,000 acres (104,000 hectares). The Orion Project is located on the southeast flank of the Sierra Madre, about 125km south of the famous Tayoltita district which has reserves reported to be in excess of 20 million gold equivalent ounces. The concessions are located approximately 110km north-northwest of Tepic, state capital of Nayarit, México, 150km southeast of Mazatlan, Sinaloa. The Orion Project is located 13 km south-southeast of the town of Acaponeta, Nayarit, in the Motaje Mining District as identified by the Servicio Geologico Mexicano (formerly the Consejo de Recursos Minerales). We anticipate to progress this project to a pre-feasibility stage by the second quarter 2011.

For more information on our projects, please see "Item 2. Property; Sonora Concessions and Orion Project in Nayarit Mexico".

#### Competition

The acquisition of gold properties and their exploration and development are subject to intense competition. Companies with greater financial resources, larger staffs and more equipment for exploration and development may be in a better position than us to compete for such mineral properties. Our limited financial resources in relation to companies with greater resources may hinder our ability to compete for and acquire additional mineral properties.

## Human Resources

As of October 1, 2010, we had 174 full time and 17 temporary employees working at our El Chanate mine in Sonora, Mexico as well as 7 full time employees in the U.S. and Canada. We also utilize a mining and other contractors at the El Chanate mine which comprised a total of 121 personnel onsite, including 28 related to leach pad construction.

A national labor union has expressed interest in organizing the workers at Capital Gold's El Chanate Mine.

The workforce at El Chanate is currently non-unionized, however, a national labor union is seeking to permit workers to vote on whether or not they would like to organize under such labor union. Capital Gold is reviewing its options with respect to the union's activities. If the workforce were permitted to unionize, such activity could result in higher production costs at the El Chanate mine; however the Company would work to execute a favorable union contract. In addition, although we have not experienced a work stoppage to date, if the workforce chose not to unionize, the national labor seeking to unionize may choose to illegally interrupt operations at El Chanate, which could have a material adverse effect on our business, financial condition or results of operations.

## Cautionary Statement on Forward-Looking Statements

Certain statements in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact included in this report regarding our financial position, business and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding exploration and mine development, construction and expansion plans, costs, grade, strip ratio, production and recovery rates, permitting, financing needs, the availability of financing on acceptable terms or other sources of funding, if needed, 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 in "Item 1A. Risk Factors" which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements and other factors referenced in this report. We do not undertake and specifically decline any obligation to publicly release the results of any revisions which may be made to any forward-looking statement to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

## Available Information

For more information about us, visit our website at [www.capitalgoldcorp.com](http://www.capitalgoldcorp.com). The contents of the website are not part of this Annual Report on Form 10-K. Our electronic filings with the U.S. Securities and Exchange Commission, or SEC (including all Forms 10-K, 10-Q and 8-K, and any amendments to these reports) are available free of charge through our website immediately after we electronically file with or furnish them to the SEC. These filings may also be read and copied at the SEC's Public Reference Room which is located at 100 F Street, N.E., Washington, D.C. 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers who file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

## Item 1A. Risk Factors

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

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## Risks related to our business and operations

While Capital Gold believes that it will continue to generate positive cash flow and profits from operations, if it encounters unexpected problems, it may need to raise additional capital. If additional capital is required and Capital Gold is unable to obtain it from outside sources, Capital Gold may be forced to reduce or curtail its operations or its anticipated exploration activities.

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

Capital Gold's Credit Agreement with Standard Bank plc ("Standard Bank") imposes restrictive covenants on it.

Capital Gold's Credit Agreement with Standard Bank requires it, among other obligations, to meet certain financial covenants including, but not limited to, (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S. \$30,000,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. \$500,000. In addition, the Credit Agreement restricts, among other things, Capital Gold's ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, Capital Gold obtained the consent of Standard Bank.

Capital Gold's mining contractor is using some reconditioned equipment which could adversely affect its cost assumptions and its ability to economically and successfully mine the project.

Sinergia Obras Civiles Y Mineras, S.A. de C.V. ("Sinergia"), Capital Gold's mining contractor, is using a combination of fully functioning new and older equipment. Such older equipment is subject to the risk of more frequent breakdowns and need for repair than new equipment. If the equipment that Capital Gold or Sinergia uses breaks down and needs to be repaired or replaced, Capital Gold will incur additional costs and operations may be delayed, resulting in lower amounts of gold recovered. In such event, Capital Gold's capital and operating cost assumptions may be inaccurate and its ability to economically and successfully mine the El Chanate project may be hampered, resulting in decreased revenues and, possibly, a loss from operations.

The gold deposit Capital Gold has identified at El Chanate is relatively low-grade. If Capital Gold's estimates and assumptions are inaccurate, its results of operation and financial condition could be materially adversely affected.

The gold deposit Capital Gold is mining at its El Chanate mine is relatively low-grade. If the estimates of ore grade or recovery rates turn out to be lower than the actual ore grade and recovery rates, if costs are higher than expected, or if Capital Gold experiences problems related to the mining, processing, or recovery of gold from ore at the mine, Capital Gold's results of operation and financial condition could be materially adversely affected. Moreover, it is possible that actual costs and economic returns may differ materially from Capital Gold's best estimates. There can be no assurance that Capital Gold's operations at El Chanate will continue to be profitable.

Gold prices can fluctuate on a material and frequent basis due to numerous factors beyond Capital Gold's control. Capital Gold's 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 Capital Gold has an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. During the year ended July 31, 2010, the spot price for gold on the London Exchange has fluctuated between \$932.75 and \$1,261.00 per ounce. Gold prices are affected by numerous factors beyond Capital Gold's control, including:

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

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

Capital Gold may not be successful in hedging against interest rate fluctuations and may incur mark-to-market losses and lose money through its hedging programs.

Capital Gold has entered into interest rate swap agreements. The terms of Capital Gold's Credit Agreement with Standard Bank require that it hedge at least 50% of its outstanding loan balance. There can be no assurance that Capital Gold will be able to successfully hedge against interest rate fluctuations.

Further, there can be no assurance that the use of hedging techniques will always be to Capital Gold's benefit. Hedging contracts also are subject to the risk that the other party may be unable or unwilling to perform its obligations under these contracts. Any significant nonperformance could have a material adverse effect on Capital Gold's financial condition, results of operations and cash flows.

Capital Gold's material property interests are in Mexico. Risks of doing business in a foreign country could adversely affect its results of operations and financial condition.

Capital Gold faces risks normally associated with any conduct of business in a foreign country with respect to its El Chanate Project in Sonora, Mexico, and its wholly owned subsidiary's Orion Gold Project in the State of Nayarit, 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 Capital Gold's efforts or operations which, in turn, could have a material adverse impact on its 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 Capital Gold's projects, restrict the movement of funds or impair contract rights or result in the taking of property by nationalization or expropriation without fair compensation.

A national labor union has expressed interest in organizing the workers at Capital Gold's El Chanate Mine.

The workforce at El Chanate is currently non-unionized, however, a national labor union is seeking to permit workers to vote on whether or not they would like to organize under such labor union. Capital Gold is reviewing its options with respect to the union's activities. If the workforce were permitted to unionize, such activity could result in higher production costs at the El Chanate mine; however the Company would work to execute a favorable union contract. In addition, although we have not experienced a work stoppage to date, if the workforce chose not to unionize, the national labor seeking to unionize may choose to illegally interrupt operations at El Chanate, which could have a material adverse effect on our business, financial condition or results of operations.

Capital Gold sells gold in U.S. dollars; however, it incurs a significant amount of its expenses in Mexican pesos. If applicable currency exchange rates fluctuate, Capital Gold's revenues and results of operations may be materially and adversely affected.

Capital Gold sells gold in U.S. dollars. It incurs a significant amount of its expenses in Mexican pesos. As a result, Capital Gold's financial performance would be affected by fluctuations in the value of the Mexican peso to the U.S. dollar.

Changes in regulatory policy could adversely affect Capital Gold's exploration and future production activities.

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





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

Any such changes may affect Capital Gold's ability to undertake exploration and development activities in respect of future properties in the manner currently contemplated, as well as its ability to continue to explore, develop and operate those properties in which it has an interest or in respect of which it has 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.

As Capital Gold currently does not enter into forward sales, commodity, derivatives or hedging arrangements with respect to its future gold production, it is exposed to the impact of any significant decrease in the gold price.

As a general rule, Capital Gold sells its gold at the prevailing market price. Currently, Capital Gold generally does not enter into forward sales, commodity, derivative or hedging arrangements to establish a price in advance for the sale of future gold production, although it may do so in the future. As a result, Capital Gold may realize the benefit of any short-term increase in the gold price, but is not protected against decreases in the gold price, and if the price of gold decreases significantly, Capital Gold's revenues may be materially adversely affected.

Compliance with environmental regulations could adversely affect Capital Gold's exploration and future production activities.

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

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

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

Capital Gold has insurance against losses or liabilities that could arise from its operations. If it incurs material losses or liabilities in excess of its insurance coverage, its financial position could be materially and adversely affected.

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

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

Such risks could result in:

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

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

Capital Gold is dependent on the efforts of certain key personnel and contractors to develop Capital Gold's El Chanate Project and Orion Project. If Capital Gold loses the services of these persons and contractors and it is unable to replace them, Capital Gold's operations at its El Chanate Project may be disrupted and/or materially adversely affected.

Capital Gold is dependent on a relatively small number of key personnel who oversee the El Chanate Project and the Orion Project. The loss of any one of Capital Gold's key personnel could have an adverse effect on Capital Gold. Capital Gold also is dependent upon Sinergia to provide mining services. Sinergia commenced mining operations on March 25, 2007, and transitioned from the pre-production to production phase of the mining contract in July 2007. Sinergia's mining fleet is comprised of new and reconditioned equipment. If Capital Gold loses the services of its key personnel, or if Sinergia is unable to effectively maintain its fleet, operations at its El Chanate Project may be disrupted and/or materially adversely affected.

There are uncertainties as to title matters in the mining industry. Capital Gold believes that it has good title to its properties; however, any defects in such title that cause Capital Gold to lose its rights in mineral properties could jeopardize its business operations.

Capital Gold has investigated its rights to explore, exploit and develop its concessions in manners consistent with industry practice and, to the best of Capital Gold's knowledge, those rights are in good standing. However, Capital Gold cannot assure that the title to or its rights of ownership in the El Chanate, Orion and Huajicari concessions will not be challenged by third parties or governmental agencies. In addition, there can be no assurance that the concessions in which Capital Gold has 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 Capital Gold.

Capital Gold's ability to maintain long-term profitability eventually will depend on its ability to find, explore and develop additional properties. Capital Gold's ability to acquire such additional properties could be hindered by competition. If Capital Gold is unable to acquire, develop and economically mine additional properties, it most likely will not be able to be profitable on a long-term basis.

Gold is a non-renewable resource and gold mines continue to deplete their reserves while in operation. They eventually become depleted of ore or become uneconomical to sustain mining operations. The acquisition of gold properties and their exploration and development are subject to intense competition. Companies with greater financial resources and larger staffs for exploration and development may be in a better position than Capital Gold to compete for such mineral properties. If Capital Gold is unable to find, develop and economically mine new properties, Capital Gold most likely will not be able to be profitable on a long-term basis.

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

Exploration for gold is speculative in nature, involves many risks and is frequently unsuccessful. Few properties that are explored are ultimately developed into commercially producing mines. As noted above, Capital Gold's 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
  - o size
  - o grade, and
  - o proximity to infrastructure,
- financing costs,
  - taxation,
  - royalties,
  - 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 Capital Gold Stock

The issuance of a significant number of Capital Gold shares could adversely affect the market price of Capital Gold shares.

We completed the business combination with Nayarit on August 2, 2010; consequently, a significant number of additional shares of Capital Gold common stock became available for trading in the public market. The increase in the number of Capital Gold shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Capital Gold shares.

The NYSE EURONEXT may delist Capital Gold's securities from its exchange which could limit investors' ability to make transactions in Capital Gold's common stock and subject it to additional trading restrictions.

Capital Gold's common stock is listed on the NYSE EURONEXT, a national securities exchange. Although Capital Gold expects to continue to meet the minimum continued listing standards, it cannot assure you that its securities will continue to be listed on the NYSE EURONEXT in the future.

If the NYSE EURONEXT delists Capital Gold's common shares from trading on its exchange, Capital Gold could face significant material adverse consequences, including:

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

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

Capital Gold does not intend to pay cash dividends in the near future.

Capital Gold's board of directors determines whether to pay cash dividends on its issued and outstanding shares. The declaration of dividends will depend upon Capital Gold's future earnings, its capital requirements, its financial condition and other relevant factors. Capital Gold's board does not intend to declare any dividends on its shares for the foreseeable future. Capital Gold anticipates that it will retain any earnings to finance the growth of its business and for general corporate purposes.

Additional Risks and Uncertainties related to the Business Combination with Nayarit completed August 2, 2010, and the combined entity

Having a reduced share position, as a result of the Nayarit Business Combination, may reduce the influence that Capital Gold's stockholders have on the management of Capital Gold.

On August 2, 2010, Capital Gold issued approximately 12,454,354 shares of its common stock in the Nayarit Business Combination to Nayarit's then current stockholders and assumed warrants and options to purchase an additional approximately 1,621,981 and 903,483 shares of Capital Gold common stock held by Nayarit's warrant and option holders, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the Amalgamation, the former stockholders of Nayarit own approximately 20.4% of Capital Gold. Consequently, the ability of the continuing stockholders of Capital Gold following the Nayarit Business Combination to influence management of Capital Gold through the election of directors has been substantially reduced.

If the Nayarit Business Combination's benefits do not meet the expectations of financial or industry analysts, the market price of Capital Gold's securities may decline.

The market price of Capital Gold's securities may decline as a result of the consummation of the Nayarit Business Combination if:

- the Company does not achieve the perceived benefits of the Nayarit Business Combination as rapidly, or to the extent anticipated by, financial or industry analysts; or





- the effect of the Nayarit Business Combination on Capital Gold's financial results is not consistent with the expectations of financial or industry analysts.

Accordingly, investors may experience a loss as a result of a decline in the market price of Capital Gold's securities. A decline in the market price of Capital Gold's securities also could adversely affect its ability to issue additional securities and its ability to obtain additional financing in the future.

The combined company may not realize the benefits currently anticipated due to challenges associated with integrating the operations of Capital Gold and Nayarit.

The success of the combined company will depend in large part on the success of management of the combined company integrating the operations of Nayarit with those of Capital Gold going forward. The failure of the combined company to achieve such integration could result in the failure of the combined company to realize the anticipated benefits of the Nayarit Business Combination and could impair the results of operations, profitability, and financial results of the combined company.

There can be no assurance that Capital Gold or Nayarit uncovered every item that could have a material adverse effect on the combined company.

Although Capital Gold conducted business, financial and legal due diligence in connection with the Nayarit Business Combination, there can be no assurance that due diligence uncovered every item that could have a material adverse effect on the combined company. Accordingly, there may be matters involving Nayarit and its financial statements that were not identified during their due diligence. Any of these issues could materially and adversely affect the combined company's financial condition.

Additional risks and uncertainties related to our proposed merger with Gammon Gold Inc. which could materially adversely affect our business, financial condition or operating results.

Our merger with Gammon Gold is subject to certain conditions to closing that could result in the merger not being consummated or being delayed, either of which could negatively impact our stock price and future business and results of operations.

Consummation of the merger is subject to a number of customary conditions, including, but not limited to, the approval of the agreement and plan of merger by the stockholders of Capital Gold, the effectiveness of a Form F-4 registration statement to be filed by Gammon with the Securities and Exchange Commission to register the shares of Gammon common stock to be issued in connection with the merger and expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. There is no assurance that Capital Gold will receive the necessary approvals or satisfy the other conditions necessary for completion of the merger. If any of the conditions to the merger are not satisfied or, where waiver is permissible, not waived, the merger will not be consummated. Failure to complete the merger would prevent Capital Gold from realizing the anticipated benefits of the merger. Capital Gold has already and expects to continue to incur significant costs associated with transaction fees, professional services, taxes and other costs related to the merger. In the event that the merger is not completed, Capital Gold will remain liable for these costs and expenses. Furthermore, if the merger is not consummated, under some circumstances we may be required to promptly pay a \$10.3 million breakup fee to Gammon, which could impact Capital Gold's liquidity and results of operations. In addition, the current market price of Capital Gold common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the market of us generally and a resulting decline in the market price of our common stock. Any delay in the consummation of the merger or any uncertainty about the consummation of the merger could also negatively impact Capital Gold's stock price and future business and results of operations. We cannot assure you that

the merger will be consummated, that there will be no delay in the consummation of the merger or that the merger will be consummated on the terms contemplated by the merger agreement.

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Whether or not the merger is completed, the announcement and pendency of the merger could impact or cause disruptions in our business, which could have an adverse effect on our business and results of operations.

Whether or not the merger is consummated, the announcement and pendency of the merger could cause disruptions in or otherwise negatively impact our business and results of operations. Among others:

- our employees may experience uncertainty about their future roles with the combined company, which might adversely affect our ability to retain and hire key personnel and other employees;
- the attention of our management may be directed toward the completion of the merger and transaction-related considerations and may be diverted from the day-to-day operations and pursuit of other opportunities that could have been beneficial to our business; and
- distributors or other vendors or suppliers may seek to modify or terminate their business relationships with us.

These disruptions could be exacerbated by a delay in the completion of the merger or termination of the merger agreement and could have an adverse effect on our business, results of operations or prospects if the merger is not completed or the business, results of operations or prospects of the combined company if the merger is completed.

Several lawsuits have been filed against Capital Gold and other parties challenging the Gammon Transaction, and an adverse judgment in such lawsuits may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

Capital Gold, the members of Capital Gold's board of directors, Gammon Gold, and in some instances Capital Gold's CFO or Capital Gold AcquireCo have been named as defendants in purported class action lawsuits brought by Capital Gold stockholders challenging the proposed Gammon Transaction, seeking, among other things, to enjoin the defendants from consummating the Gammon Transaction on the agreed-upon terms.

The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm our reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A temporary or permanent injunction could delay or prevent completion of the Gammon Transaction and such delay or failure of the transaction could cause the adverse results discussed above.

A judgment or settlement that is not covered by or is significantly in excess of our insurance coverage for any claims, or our obligations to indemnify the individual defendants, could materially and adversely affect our financial condition, results of operations and cash flows.

See "Item 3. Litigation" for more information about the putative class action lawsuits related to the Gammon Transaction that have been filed.

Item 1B. Unresolved Staff Comments

None.

Item 2. Property

Sonora Concessions

Through our wholly-owned subsidiary, Oro de Altar S. de R. L. de C.V. ("Oro"), we own 100% of the following 21 mining concessions, all of which are located in the State of Sonora United States of Mexico.

The 21 mining concessions are as follows:

Lot	Title #	Hectars	Owner
1 SAN JOSE	200718	96.00	Oro
2 LAS DOS VIRGEN	214874	132.235	Oro
3 RONO #1	206408	82.1902	Oro
4 RONO #3	214224	197.218	Oro
5 LA CUCHILLA	211987	143.3481	Oro
6 ELSA	212004	2,035.3997	Oro
7 ELISA	214223	78.4717	Oro
8 ENA	217495	190.00	Oro
9 EVA	212395	416.8963	Oro
10 MIRSA	212082	20.5518	Oro
11 OLGA	212081	60.589	Oro
12 EDNA	219624	24.0431	Oro
13 LA TIRA	219324	1.7975	Oro
14 LA TIRA 1	219623	18.6087	Oro
15 LOS TRES	223634	8.00	Oro
16 EL CHARRO	206404	40.00	Oro
SANTA RITA 4 17 FRACCION I	233574	5.0728	Oro
SANTA RITA 4 18 FRACCION II	233575	4.7786	Oro
SANTA RITA 4 19 FRACCION III	233576	110.2725	Oro
20 SANTA RITA I	231373	3,765.9666	Oro
21 SANTA RITA III	232117	2,233.3163	Oro

Total 9,664.7559

At the El Chanate Project we are mining on two concessions, San Jose and Las Dos Virgens. We are utilizing four other concessions for processing mined ores. In the future, we plan to explore some or all of these concessions to determine whether or not further activity is warranted.

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

Our proven and probable reserve tonnage increased to 70.6 million metric tonnes with an average gold grade of 0.66 grams per tonne (77.7 million US short tons at 0.0193 ounces per ton). The proven and probable reserve has 1,504,000 contained ounces of gold. The open pit strip ratio for the life of mine is 2.88:1 (2.88 tonnes of waste to one tonne of ore). For the next year, our mine plan anticipates the open pit strip ratio will average 2:1. Determination of operational pre-stripping (increase in strip ratio) will be made after further geological drilling and determination of corporate strategy within the three year window of opportunity. There is also the potential to improve the life of mine strip ratio as the report identifies material within the pit design classified as waste that with additional drilling could be reclassified as ore. The updated pit design for the revised mine plan is based on a plant recovery of gold that varies by rock types, but is expected to average 58.25%. A gold price of US\$800 (SEC three year average as of October 1, 2009) per ounce was used to re-estimate the reserves compared with a gold price of \$750 per ounce used in the previous reserve estimate. The stated proven and probable mineral reserves have been prepared in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). CIM definitions for proven and probable reserves convert directly from measured and indicated mineral resources with the application of appropriate economic parameters. These reserves are equivalent to proven and probable reserves as defined by the United States Securities and Exchange Commission (SEC) Industry Guide 7.

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

El Chanate Mine

## Production Summary

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

- (1) “g/t” means grams per metric tonne, “opt” means ounces per ton, “Mt/d” means metric tonnes per day and “t/d” means tons per day.
- (2) The reserve estimates are mainly based on a gold cutoff grade of 0.15 g/t for sandstone and 0.19 grams for siltstone and latite within the pit design.

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

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



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

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

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

In October 2009, we procured additional water rights at El Chanate that has enabled us to drill another water supply well. The new well was completed in October 2010 and will allow for a further increase in solution flow to the leach pads.

In December 2009, we completed the procurement and commissioning of a new tertiary crusher for the El Chanate mine. The cost for this equipment was approximately \$1,100. In addition, we increased the speed of the tertiary crushers by 20% which has resulted in a finer crush size which is anticipated to speed up the recovery time of the metal content. We also made maintenance and scheduling improvements to the crushing circuit, including the design of the cone crushing liners, which have maximized the availability of the crushing plant and improved both crushing and stacking rates. Lastly, we upgraded the platform supports for three of our crushers in May 2010. These upgrades cost approximately \$800.

We commenced a drill campaign in April 2010 within the El Chanate pit area which consists of approximately 92 reverse circulation drill holes totaling approximately 11,586 meters. The primary reason for the infill drilling is to replace depleted reserves and improve the forecast accuracy of the mine plan. In addition, some holes will test the north pit wall for mineralization as well as the outer limits of the pit. The data from both the infill and exploration drilling will be used to update the resource estimate which we anticipate to be complete before the end of our fiscal year ended 2011.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately \$7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the aggregate capacity will be approximately 20.1 million tonnes. This capital expenditure is anticipated to be expended over the next twelve months. Site clearing was initiated in May 2010 and construction commenced in July 2010. The first panel is anticipated to be ready for stacking towards the end of the calendar year with complete construction anticipated to be completed by May 2011 (See Note 8).

In July 2010, the Company commenced the use of belt agglomeration with cement which is added to the crushed ore at the El Chanate mine to improve the flow of leaching solution. We have engaged an independent consultant with respect to heap leaching optimization, which has resulted in recommendations to increase the barren solution flow to the leach pad, increase the pregnant solution flow to the recovery plant, and redirect the low grade solution to the leach pads. When fully implemented, these operational changes combined with the agglomeration with cement and barren solution may result in immediate improvements in leaching time. We ordered two agglomeration drums which are expected to arrive by January 2011. The current belt agglomeration is a temporary measure until the drums are delivered. The use of agglomeration drums will allow for better mixing of cement and lime with the crushed ore, producing a consistent quality control of the product. The cost of these agglomeration drums and an additional overland conveyor is anticipated to be \$2,000 (See Note 23).

The following table represents a summary of cumulative activity in connection with our proven and probable mineral reserves:

Proven and probable mineral reserve (Ktonnes of ore)	July 31, 2010	July 31, 2009	July 31, 2008
<b>Ore</b>	-	-	-
Beginning balance (Ktonnes)	40,911	35,417	38,916
Additions	30,388	9,342	-
Reductions	(4,587)	(3,848)	(3,499)
<b>Ending Balance</b>	<b>66,712</b>	<b>40,911</b>	<b>35,417</b>
<b>Contained gold</b>			
Beginning balance (thousand of ounces)	859	719	814
Additions	662	239	-
Reductions	(110)	(99)	(95)
<b>Ending Balance</b>	<b>1,411</b>	<b>859</b>	<b>719</b>

El Chanate is an open pit mining and heap leach processing operation. Ore is hauled by truck from the pits to the processing plant. The recovery of gold from certain gold ores is achieved through the heap leaching process. Under this method, ore is placed on impermeable leach pads where it is treated with dilute alkaline cyanide bearing solution, which dissolves gold and silver contained within the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. The processing is a closed circuit, solution is reused, and the process is zero discharge. The mining and other mobile equipment is mostly refurbished as is the smaller of the two Adsorption, Desorption, Refinery ("ADR") processing plants. All other equipment and infrastructure at the El Chanate mine are new. Management continuously analyzes production results and considers improvements and modernizations as deemed necessary.



Equipment and infrastructure include: A three stage crushing plant, a fleet of haul trucks, loaders and mining support equipment, a leach pad and solution holding ponds, two ADR processing plants, and a refinery. In addition, there are numerous ancillary support facilities including warehouses, maintenance shops, roadways, administrative offices, power and water supply systems, and a fully equipped assay and metallurgical laboratory.

We commenced gold production at the El Chanate mine on July 31, 2007. During the fiscal years ended July 31, 2010, 2009 and 2008, we sold 54,304, 48,418 and 39,102 ounces of gold, respectively. Management has been and anticipates that it will continue to fund expansion costs with its cash flow from operations. We believe that the improvements and enhancements in production being made at the El Chanate mine will elevate and maintain El Chanate's production profile to 65,000 to 70,000 ounces per annum.

#### 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. Minera Santa Rita S.A. de C.V. ("MSR"), one of our wholly-owned Mexican subsidiaries, 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.

We purchased additional surface property ownership, consisting of 220 hectares in Altar, Sonora, in March 2009, adjacent to the El Chanate mine in order to accommodate future leach pad expansion requirements. The purchase transaction was recorded as public deed number 18,174, dated March 26, 2009, issued by Mr. José Antonio Dávila Payán, Notary Public number 3 in Caborca, Sonora.

#### General Information and Location

The El Chanate Project is located in the State of Sonora, Mexico, 37 kilometers (22 miles) northeast of the town of Caborca and nine kilometers from a paved road. It is accessible by an all weather dirt road. Driving time from Caborca is approximately 30 minutes. Access from Caborca to the village of 16 de September ("Ejido") is over well maintained National highways. We acquired rights for service road access from the Ejido, and constructed this road.

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 delineated ore zone and current mine plan covers an area of approximately 5,576 feet (1,700 meters) long by 2,558 feet (780 meters) wide. There is evidence of potential additional mineralization within the El Chanate concessions that warrant further exploration.

In 2005, we acquired 15 year rights of way to access the El Chanate Project from the Ejido and local ranchers. We subsequently purchased an extension of our rights-of-way from 15 to 30 years. We acquired a water allocation and water well that draws from a large regional aquifer. The 2005 feasibility study indicated our average life of mine water requirements, at that time, for ore processing only, will be about 94.6 million gallons per year (358,333 cubic meters, or 11.4 liters per second). The amount of water we were permitted to pump from the well was approximately 71.3 million gallons per year (270,000 cubic meters, or 8.6 liters per second). During the fiscal years ended July 31, 2008 and 2009, on two occasions we acquired additional water right permits that allow us to pump up to 149.5 million gallons (566 cubic meters) per year. In October 2009, in preparation for future growth, we acquired additional water rights and a water well which allows us to allocate an additional 158.5 million gallons per year (600,000 cubic meters). This gives us a total allocation of approximately 317.4 million gallons (1,202,270 cubic meters per year, or 38.1 liters per second). Based on current and anticipated future water consumption, we believe we have sufficient

water to meet our current development and production requirements.

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In December 2005, MSR entered into a Mining Contract with Sinergia. The Mining Contract, as amended, became effective November 1, 2006 and work commenced on March 25, 2007 (the “Commencement Date”). Pursuant to an amendment to the Mining Contract, the mining rates set forth in that contract are subject to adjustment for the rate of inflation between September 23, 2005 and the Commencement Date. Pursuant to the Mining Contract, Sinergia, using its mining fleet, is obligated to perform all of the mining, blasting and mine maintenance work at the El Chanate Project for the life of the mine at a predetermined mining rate and fleet size. Sinergia’s mining rates are subject to escalation on an annual basis. This escalation is tied to the percentage escalation in Sinergia’s costs for equipment parts, interest rates and labor. One of the principals of Sinergia (“FG’s Successor”) is one of the former principals of Grupo Minero FG S.A. de C.V. (“FG”). FG was our former joint venture partner.

Historical workings suggest that the area has been mined for gold since the early 19th century. A number of old underground workings are characterized by narrow shafts, to a depth of several tens of feet and connecting drifts and cross cuts. The current open pit mine has been developed below the level of the historical small scale mining.

### Geology

The project area is underlain by deformed 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 microporphyritic latite and by a diorite stock. The sedimentary strata are comprised of mudstone, siltstone, sandstone, conglomerate, shale and limestone. Sandstone, conglomerate and lesser mudstone that lies above the Chanate fault are of the Middle Cretaceous Chanate Group. Below the Chanate fault siltstone, and sandstone lenses are assigned to the Arroyo Sasabe Formation of the Lower Cretaceous Bisbee Group. The Arroyo Sasabe formation overlies the Morita Formation of the Bisbee Group. The Escalante, Arroyo Sasabe, and Morita formations are mineralized proximal to the Chanate fault.

The main structural feature of the project area is the Chanate fault zone, a 7 km long (minimum) northwest-striking, variably southwest-dipping structure that has been interpreted to be a thrust fault. The Chanate fault 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 andesite dikes, and a change from sandstone to siltstone. The Chanate Fault Zone is offset by a series of high angle normal faults which also strike northwest. Intrusions of the microporphyritic latite are primarily below the Chanate fault zone, in the mine area, and also predate mineralization.

## Alteration/Mineralization

Alteration and mineralization, associated with the Chanate Fault zone, are exposed over a north 60 west strike length of over 3.5 km. The final open pit mine dimensions are 1,700 meters along strike n60w, 775 meters normal to strike, and the pit will be 280 meters deep. The rock units within this zone are altered to varying degrees by sericite, pyrite, ankerite and quartz veining. In surface outcrop the mineralized zone is distinguished by its bleached appearance relative to unmineralized rock. The mineralized zone contains only single digit ppm (parts per million) levels of gold. Sub-parallel 'sheeted' zones of quartz veinlets form thick, mineralized lenses, within a larger area of sub-economic but anomalous gold concentrations. Drill hole data indicates the mineralized lenses are sub-horizontal to gently southwest-dipping and are often parallel to the Chanate fault and the steep normal faults. The fault zone itself is generally weakly mineralized, while rock units in the adjacent hanging and footwalls are well mineralized.

## Our Acquisition and Ownership of the El Chanate Project

In June 2001, we purchased 100% of the issued and outstanding stock of Minera Chanate, S.A. de C.V. from AngloGold North America Inc. and AngloGold (Jerritt Canyon) Corp. 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 2002, after property reviews and to minimize tax payments, the 106 concessions had been reduced to 12 concessions. To cover certain non-critical gaps between concessions, four new concessions were acquired, and the number of concessions is now 16. These concessions are contiguous, totaling approximately 3,543 hectares (8,756 acres or 13.7 square miles). Although there are 16 concessions, we are only mining two of these concessions at the present time. 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. In the future, assuming adequate funding is available, we plan on conducting exploration activities on some of the other concessions.

Pursuant to the terms of the agreement with AngloGold, in December 2001, we made a \$50 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). AngloGold's right to a payment of a percentage of net smelter returns and the net profits interest will terminate when they aggregate \$18,018. During the first part of calendar 2008, Royal Gold, Inc. acquired from Anglo Gold the right to receive both the net smelter returns of between 2% and 4% plus and the 10% net profits interest which terminates at such point as they aggregate \$18,018. As of July 31, 2010, we have incurred approximately \$5,567 with regard to the net smelter return. In addition, in March 2009, we paid the total \$1,000 net profit interest to Royal Gold. As of July 31, 2010, we have approximately \$11,451 remaining to be incurred on the net smelter return.

Under the terms of the agreement, we had 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 was exercisable over a 180 day period commencing at such time as we notified AngloGold that we had made a good faith determination that we had 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, in excess of a target number of 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. In January 2008, we made a good faith determination and notified AngloGold that the drill indicated resources at the El Chanate gold mine exceeded two million ounces of contained gold. The term "drill indicated resources" is defined in the agreement. A drill indicated resource number does not rise to the level of, and should not be considered proven and probable reserves as those terms are defined under guidelines of the Securities Exchange Commission ("SEC"). On July 1, 2008, AngloGold notified us that it would not be exercising its option.





#### El Oso Project - Saric Properties – Sonora, Mexico

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

In January 2010, we initiated an additional drill campaign at Saric that consisted of 13 core holes totaling approximately 1,100 meters. The drilling was completed on February 23, 2010 and targeted the existing mineralized structure to confirm the geologic interpretation and confirm the accuracy of previous reverse circulation drilling. The drill hole samples were assayed by ALS Chemex. Currently, we are planning to initiate a geophysical survey in late 2010. The intention of the geophysical survey is to assist us in determining the focus of our next drill campaign. We are also continuing our work on an updated environmental report and clarifying the surface ranch land ownership.

The lease agreement required an initial payment of \$45 upon execution of the lease. We are required to pay an additional \$250, consisting of ten payments of \$25 every four months beginning six months after execution of the lease agreement (See Note 23). The agreement also contains an option to acquire the mining concessions for a cash payment of \$1,500 at the end of the term (December 2011). If we elect not to exercise this option, we would have the ability to mine the concessions by paying a 1% net smelter return to the owners of the leased concessions, capped at \$3,000. Prior payments made under this lease agreement would be deductible from the \$3,000 cap.

#### Orion Project

Through our recent acquisition of Nayarit on August 2, 2010, we control approximately 257,000 acres (104,000 hectares) of mining concessions known as the Orion Project. The Orion Project lies in the Sierra Madre Occidental, a prolific mining district in Western Mexico. Nayarit was a junior mineral exploration company that was incorporated in November, 2003 and became a public company by virtue of its amalgamation with Canhorn Chemical Corporation on May 2, 2005. With this recent acquisition, our plan is to continue exploration work on the Orion Project in the State of Nayarit, Mexico. As an exploration stage project, the Orion Project currently does not produce any gold. The original exploration focus was on the known mineralization of the La Estrella property, one of the original properties making up the Orion Gold Project. With expansion of the property area by almost 1200% in 2005 and 2006, other targets were identified and the strategy has taken on more of a district approach. A reconnaissance drill program initiated in 2007 throughout a small portion of the northern area in the concession resulted in the discovery of the Animas System, which was the focus of Nayarit's diamond drill program.

Portions of the following disclosure relating to the Orion Project have been derived from two independent technical reports prepared for Nayarit entitled “National Instrument 43-101 Technical Report on Resources – Nayarit Gold Inc. – Orion Project, State of Nayarit, Mexico” dated December 29, 2009, and “National Instrument 43-101 Preliminary Economic Assessment – Nayarit Gold Inc. – Orion Project, Animas/Del Norte Zone, State of Nayarit, Mexico” dated February 5, 2010 authored by qualified persons (collectively, the “Authors”) of SRK Consulting (U.S.) Inc., 7175 W. Jefferson Avenue, Suite 3000, Lakewood, CO 80235. These technical reports have been completed in accordance with the terms of National Instrument 43-101 and the Authors are “qualified persons” within the meaning of National Instrument 43-101 and are independent of Nayarit and Capital Gold. The disclosure in this document has been reviewed by Mr. Ramon Hiram Luna Espinoza, P. Geonga, a consultant to Capital Gold who is a "qualified person" under National Instrument 4-3-101 and is not independent of Capital Gold.

The Orion Project lies in the prolific Sierra Madre Occidental, which hosts numerous multi-million ounce gold-silver deposits. The Orion Project is one of the larger contiguous concessions in the Sierra Madre, composed of 257,000 acres (104,000 hectares). The Orion Project is located on the southeast flank of the Sierra Madre, about 125km south of the famous Tayoltita district which has reserves reported to be in excess of 20 million gold equivalent ounces. The concessions are located approximately 110km north–northwest of Tepic, state capital of Nayarit, México, 150km southeast of Mazatlan, Sinaloa. The Orion Project is located 13 km south–southeast of the town of Acaponeta, Nayarit, in the Motaje Mining District as identified by the Servicio Geológico Mexicano (formerly the Consejo de Recursos Minerales). We anticipate progressing this project to a pre-feasibility stage by the second quarter 2011.

Figure 1. Orion Project Concessions Area on Nayarit State.

#### Royalties, Agreements and Encumbrances

Nayarit Gold de Mexico, S.A. de C.V. (“Nayarit Mexico”), our wholly-owned subsidiary, has the exclusive right to explore and, as the case may be, exploit the “La Estrella” (title 196009) mining concession, in accordance with the terms of an exploration agreement (the “Exploration Agreement”) dated November 28, 2003 which was entered into by and between Mr. Adrian Evodio Prado Gomez and Minera Portree de Zacatecas, S.A. de C.V., which conveyed its rights to Nayarit Mexico in accordance with the terms of a Conveyance Agreement dated May 20, 2004 (the “Conveyance Agreement”) and amendments thereto dated May 17, 2004, July 29, 2004, November 28, 2007, November 28, 2008 and a letter of intent for a new amendment dated December 4, 2009 (the “Estrella Amendments”).

For the exploration rights of La Estrella as described above, Nayarit Mexico has paid up to date the amount of \$550 plus applicable Value Added Tax, and shall pay the following amounts in the dates indicated below, after which payment, Nayarit Mexico will acquire 100% interest to La Estrella concession:

- (i) \$100 plus applicable Value Added Tax, in December 8, 2010;

(ii) \$100 plus applicable Value Added Tax, in June 8, 2011;

(iii) \$175 plus applicable Value Added Tax, in December 8; 2011

(iv) \$175 plus applicable Value Added Tax, in June 8, 2012; and

(v) \$350 plus applicable Value Added Tax, in December 8, 2012.

The Exploration Agreement and Amendments thereto may be terminated by Nayarit Mexico at any time through a written communication addressed to Prado.

Nayarit Mexico has the unlimited right to explore the following mining concessions (“Huajicari Concessions”), in accordance with the terms of and Exploration and Assignment Option Agreement of Mining Concessions (the “Option Agreement”) dated May 8, 2008, which was entered into by and between Compañía Minera Huajicari, S.A. de C.V. (“Huajicari”) and Nayarit Mexico and amendment thereto, dated December 10, 2009:

CLAIM	TITLE NUMBER
“San Juan Fracc. I”	205392
“San Juan Fracc. II”	205393
“San Francisco Tres”	203136
“San Juan I”	221365
“Isis”	214395
“San Miguel”	224392

For the exploration rights of the Huajicari Concessions as described above, Nayarit Mexico has paid up to date the amount of \$2,250, and shall pay \$250 by October 31, 2010, after which payment, Nayarit Mexico will acquire 100% interest to Huajicari Concessions.

The term granted to Nayarit Mexico for the exploration of the above mentioned mining is 2 years commencing as of the date of execution of the Option Agreement but Nayarit Mexico may terminate the agreement at any time through a written communication addressed to Huajicari.

Nayarit Mexico has the option to acquire 100% interest to the Huajicari Concessions at any time as of the date of execution of the Option Agreement, provided it complies with the obligations set forth in the Option Agreement.

Nayarit Gold Inc. purchased the Orion Concession by Asset Purchase Agreement dated January 30, 2004. With respect to the Orión concession, Nayarit has granted a 3.5 percent net smelter return royalty payable to Belitung Limited, an Ontario incorporated company. Nayarit may purchase the royalty outright at any time for CDN\$250 in cash or non-assessable common shares. In addition, Nayarit is also subject to a net profits interest on Orión of 10% payable to a previous property owner.



Table: Mining Concessions Controlled by Nayarit Gold de Mexico, SA de CV

Concession Name	Title	File No.	Owner	Surface (ha)
BONANZA I	227603	6923	NAYARIT GOLD DE MÉXICO SA de CV	200.00
EL DORADO	228887	7013	NAYARIT GOLD DE MÉXICO SA de CV	23,001.85
EL MAGNIFICO	221592	6758	NAYARIT GOLD DE MÉXICO SA de CV	7,595.74
EL MAGNIFICO F-I	221588	6758	NAYARIT GOLD DE MÉXICO SA de CV	6.90
EL MAGNIFICO F-II	221589	6758	NAYARIT GOLD DE MÉXICO SA de CV	32.00
EL MAGNIFICO F-III	221590	6758	NAYARIT GOLD DE MÉXICO SA de CV	6.96
EL MAGNIFICO F-IV	221591	6758	NAYARIT GOLD DE MÉXICO SA de CV	8.84
GROSS F I	228826	7002	NAYARIT GOLD DE MÉXICO SA de CV	67,148.77
GROSS F- II	228827	7002	NAYARIT GOLD DE MÉXICO SA de CV	16.00
ORION	205616	6253	NAYARIT GOLD DE MÉXICO SA de CV	527.50
REESE	227775	6980	NAYARIT GOLD DE MÉXICO SA de CV	3,104.29
SAN JUAN I	221365	3/1/639	COMPAÑIA MINERA HUAJICARI SA de CV	45.63
S A N FRANCISCO 3	203136	3/1.3/243	COMPAÑIA MINERA HUAJICARI SA de CV	32.75
SAN JUAN F - II	205393	6250	COMPAÑIA MINERA HUAJICARI SA de CV	0.81
ISIS	214395	6617	COMPAÑIA MINERA HUAJICARI SA de CV	101.34
SAN JUAN F-I	205392	6250	COMPAÑIA MINERA HUAJICARI SA de CV	1,339.01
SAN MIGUEL	224392	3/1/723	COMPAÑIA MINERA HUAJICARI SA de CV	1,177.38
LA ESTRELLA	196009	3/1.3/232	ADRIAN EVODIO PRADO GÓMEZ	146.35

#### Environmental Liabilities and Permitting

Nayarit Gold has initiated the generation of an environmental impact assessment of the concession(s) (the “EIA”) which is substantially complete. There are no known environmental liabilities on the Concession.

#### Accessibility, Climate, Local Resources, Infrastructure and Physiography

#### Access to Property

Access to the Orion Project site is from Tepic, state capital of Nayarit, Mexico via 220km of multi-lane paved toll road to Acaponeta near the Nayarit–Sinaloa state border. Primary access to the Orion Project is located 10km to the east, towards the El Motaje ranch, where a secondary dirt road passes northward towards the La Estrella mineralized area. A second access road connecting the Motaje ranch and the La Estrella zone has been maintained by Nayarit Gold since 2005. A 1,000m long, unpaved fixed wing airstrip and two bus depots for local and external transportation are also available in Acaponeta.

#### Power and Water Supplies

Low voltage residential electrical power services are available at El Resbalón, Motaje and El Carrizo, while a major 115kV line which is part of the interconnected National Power line Net crosses the El Magnífico claim 2 km west of the La Estrella zone. Water for industrial purposes has not been adequately investigated in the region, however surface water is abundant.

#### Climate and Length of Operating Season

The general climate in the region is warm and sub-humid with a well-defined primary rainy season between June and September, and which commonly extends through October. Average annual rainfall is in the order of 1,307mm, of which 92% falls from July to September. The annual mean temperature is 26.7°C. Exploration work can be carried out year round at the Orion Project.

## Surface Rights

According to Mexican legislation, surface rights are not part of mining concessions and require that specific purchase or rental agreements with property owners must be fulfilled. At Animas/Del Norte, La Estrella, San Francisco and most of the northern exploration targets within the Orion Project surface rights are held by the Indigenous Community of San Blasito and annexes of the Acaponeta municipality based in the village of Motaje, southeast of La Estrella. Nayarit Gold has established private agreements with local communities to obtain permission for exploration activities. In all cases, the main responsibility agreed to by Nayarit Gold is to give priority to the local population for the non-specialized jobs created by the advancement of the Orion Project, provide them with mandatory Social Security registration and assist with mobile equipment support for improvement of access roads to the neighboring communities.

## Topography, Elevation and Vegetation

Topography at the Motate Carrizo is characterized by moderate relief, with elevations ranging between 60m to a maximum of 620m above sea level (masl). In the area of the concessions, more than 40 different species of plants have been identified and can be generally grouped as oak tree forests and sub-caducifolia and sub-perennifolia scrub trees and bush forest. The main use of vegetation in the region is for human consumption, wood for fuel, fence poles, furniture making and a few edibles. It has been observed in some reports that local vegetation has partially been altered due to forest fires, as well as deforestation resulting from agriculture and the raising of cattle.

## Physiography

The Orion project is located along the western flank of the Sierra Madre Occidental, a mountain range that defines the central spine of northern Mexico. The north-northwest-trending Sierra Madre Occidental is composed of a relatively flat-lying sequence of Tertiary volcanic rocks that forms a volcanic plateau. The Sierra Madre Occidental gives way to the west to an extensional terrane that represents the southward continuation of the Basin and Range Province of the western United States, and then further west to the coastal plain of western Mexico. The property lies at the boundary between the Mexican Basin and Range Province and the coastal plain. The Orion project area is hilly, but not mountainous, with densely vegetated, steep-sided slopes. The hills are cut by a number of intermittent streams that flood in the June – September rainy season.

The area is sparsely populated and cattle raising and cultivation of market crops, are the main district land use. Agriculture produced from the area includes corn, beans, nuts, sorghum, avocados and a variety of other fruits and vegetables. Local activities in the municipality of Acaponeta include agriculture with 18,000ha of corn, beans, sorghum, chili pepper, avocado and mango production, cattle raising (32,000ha) and forestry (7,000ha) with minor artisanal mining activities.

## History

### Past Exploration and Development

The Orion project area lies within the Motaje mining district in the Municipality of Acaponeta, Nayarit, Mexico. The district is reported to have had moderate but unknown quantities of gold and silver production dating from Spanish colonial times, possibly as early as the late 1500's. Many small adits and superficial workings along the district's two main mineralized structural trends, the La Estrella – Animas - Pantaleona and the El Rey - La Escondida - Bonanza trends, attest to past mining activity.



A small, 5t/d, operation was carried out between 1955 and 1970 at La Estrella. In 1973 a total of 15,000 tons was produced from the Bonanza Mine, 4.7 km east of La Estrella, while the Las Animas Mine was operated around 1998. Currently, Minerales Vane , S.A. de C.V. is carrying out small scale mining of 1500 TPM at the Diablito high grade mine in the neighboring Las Lumbres District, located 16km southwest of La Estrella.

Mineral exploration was carried out at La Estrella Concession area by Lac Minerals (USA) in 1993 – 1994 including the completion of 21 drill holes. Previously, exploration was carried out by Minas Caopas on the San Francisco – La Sebastianna mine areas in 1986-1987 located just south of La Estrella, when 21 drill holes were completed by Minas Caopas.

## Geologic Setting

### Regional Geology

The Sierra Madre Occidental metallogenic province, in which the Orión Gold Project is located, is one of the world's largest epithermal precious metal terrains and hosts most of Mexico's gold and silver deposits. The general geology of the Orión Gold Project area is characterized by Early to Mid-Tertiary volcanic rocks, which can be divided geologically into two main units referred to as the Upper and Lower Volcanic Groups. The Lower Volcanic Group is of a generally andesitic composition and hosts most of the mineral deposits. The Upper Volcanic Group is of a generally dacitic to rhyolitic composition and covers the Lower Volcanic Groups except where erosion has removed it entirely, or deep river valleys have cut down to expose the underlying lower volcanics. Between the time of deposition of the Upper and Lower volcanics, the rocks were intruded by shallow, fine-grained to porphyritic igneous rocks of a generally felsic composition. This assemblage is typical and extends through the Sierra Madre Occidental in eastern Sonora, western Chihuahua, Durango, Sinaloa and Nayarit states.

Figure 2. Regional geologic map illustrating geology, the Animas/Del Norte Resource area and various targets throughout the concession. A more detailed view of the Animas/Del Norte area is illustrated in Figure 3.

#### Local and Property Geology

The northern portion of Nayarit Gold's concessions includes a number of epithermal veins which are developed along east-west fracture systems. Mineralized veins form two discrete mineralized corridors separated by about 2km from one another. Animas/Del Norte is the southernmost of two major mineralized corridors defined at the project, each more than 4 kilometers long. The southern mineralized corridor includes the Animas/Del Norte veins and the Pantaleona, San Francisco and La Estrella veins, which generally dip to the north and is more than 4 km long, as is the northern vein. The La Estrella structure is a northwest striking splay off the Del Norte vein. The northern corridor includes the El Rey, La Escondida, El Carmen, Bonanza 1 veins, which generally dip to the south and includes the previously producing Bonanza mine, which is in a competitor owned mining concession internal to Nayarit Gold's land package.

Figure 3. Northern portion of the concession where most of the exploration has been carried out to date. The mapped veins are illustrated in red with the various targets.

## Exploration

Nayarit Gold has been exploring the Orion Project since 2004. Exploration to date has focused in the northern portion of the concession where the company has identified two +4km parallel vein sets, which hosts most of the known mineral zones to date (see above image). Most of the focus has been on the Las Animas/Del Norte system, in the southern vein, which hosts the majority of mineral resources found to date. Exploration was initiated by underground and surface sampling and mapping of the Las Animas structure. Rock and soil programs over the area were carried out which was followed by a series of drill hole programs. All mapping and sampling was carried out by company personnel while drilling was contracted to HD Drilling.

To the east and west Animas/Del Norte the company has also explored several known zones and advanced exploration to an initial drill phase. These zones include San Francisco and San Sebastiana to the west and Pantaleona to the east. Drilling has identified mineral zones in all locations, although not as prominent as that at Animas/Del Norte. More work is necessary especially at San Sebastiana and Pantaleona areas.

The northern vein set which is host to El Rey, Escondida, Bonanza, El Carmen, Bonanza 1 has also been explored by surface and underground sampling and mapping, and drilling. Surface samples have shown promise in the area, however, drilling to date has been less consistent. More exploration is necessary to determine the best drill targets.

Nayarit has also completed exploration on select targets throughout the southern portion of its Orion Concession (see Figure 2 for locations of the following targets). At Lazaro Cardenas, 22 km S-SE of Animas/Del Norte and Rosa Amarilla, 19 km south of Animas/Del Norte, the company has completed surface work and drilling, with drill results showing promise. Both areas show considerable promise and further exploration and drilling is needed.

At El Frontal, 22 km southeast of Animas/Del Norte, the company has carried out a surface and minor underground sampling program. This target is a historic mine which according to COREMI, 1994, has 1.5 km of underground development. As with other targets, this one is an epithermal gold-silver prospect and needs additional exploration followed by drilling to assess its potential. Grab samples in the underground workings collected by Nayarit geologists assayed up to 6.18 g/t gold and 179 g/t silver.

Other targets that have been sampled but not drilled throughout the southern concession include El Chinacate (28 km southeast of the Animas/Del Norte), Las Camillas (22.5 km south from the Las Animas/Del Norte) and La Paloma (16 km south of the Animas/Del Norte). All zones have shown gold and silver grades from surface veins.

In general, Nayarit has not completed any significant exploration throughout the southern concession area, except for the known historic target zones listed above.

All sampling and drilling has been carried out in such a manner that its reliability is high. A Quality Assurance/Quality Control ("QA/QC") program for sampling including rocks, soils and drill core samples are submitted with commercial standards for assay check as well as blanks and duplicates.

### Mineralization

The mineralized zones at Animas/Del Norte are composed of a series of 2 to 4m wide discrete quartz veins within a zone of dense quartz stockwork and breccias, averaging 12m wide and reaching widths greater than 25m, generally enveloped in andesites of the lower volcanic series. Epithermal textures ranging from colloform banding in chalcedonic quartz to cockade texture in crystalline quartz are common. Nayarit Gold personnel have observed that two different mineral assemblages occur in the veins and that one assemblage is more favorable for high-grade mineralization. An early district wide event resulted in the formation of crystalline quartz and pyrite, observed in all the known veins in the district. This event is characterized by well crystallized pyrite and low silver: gold ratios. The event is gold dominant and does have potentially economically mineable grades in several drillholes in the La Estrella area. A later event, characterized by very finely crystalline to chalcedonic quartz, is accompanied by very fine pyrite, acanthite/argentite, light colored sphalerite and very minor chalcopyrite and galena. Dark, sulphide rich bands (ginguro bands) and breccia fragments containing remnants of such bands are common. This event has high silver: gold ratios and is the dominant style of mineralization observed in the Del Norte and Pantaleona areas, and is less well developed in the San Francisco area. Only traces of the younger fine-grained quartz/argentite event have been observed at La Estrella. The more favorable silver rich event is present along the northern mineralized corridor, but has not been identified in significant volumes along at El Rey, La Escondida and Bonanza 1. It is noted that along the northern vein system, the Bonanza mine appears to have this mineral assemblage well developed on rocks taken from the dumps.

### Relevant Geological Controls

The principal geologic controls to mineralization at Animas/Del Norte are favorable, dilatant structural flexures and favorable host rocks. The highest-grade mineralization for gold and silver in the Animas/Del Norte veins is localized in a 200m vertical range from 100m above sea level to 100m below sea level. A mineral assemblage including argentite/ginguro, light colored sphalerite and low temperature quartz locally alternates with a mineral assemblage including hypogene hematite (evidence of an oxidizing fluid) and kaolinite. The hematite and kaolinite are best developed in zones with very high gold and silver grades.

A major bend in the mapped veins crossing the Animas hill is known as the Animas/Del Norte Flexure. Most movement on the faults hosting the veins was normal dip slip movement, but a small component of left lateral movement formed a dilatant, permeable zone. The widest and highest grade portions of the Animas/Del Norte deposit are in and adjacent to this structural flexure.

The andesite crystal-lithic tuff unit is an andesite lithic tuff with a sufficiently competent matrix to fracture well, and is favorable for mineralization. This rock occurs in the hanging wall of the Del Norte vein throughout the vertical extent of the favorable horizon. The rock unit is also present in the hanging wall at Pantaleona and is likely to occur at depth at La Estrella.

## Drilling

### Type and Extent of Drilling

Two hundred sixty-four diamond core holes, ten reverse circulation holes and eight holes started with reverse circulation and finished with core have been drilled by Nayarit Gold on the Orion Project. A total of 51,927m of core have been drilled and a total of 11,860m of reverse circulation have been drilled. Nayarit Gold's database maintains information on hole diameter indicating which portions of each hole were drilled by reverse circulation, HQ diameter core or NQ diameter core. Of the total meters drilled, 55,782m were included in the resource model and 8,005m were drilled on targets outside of the resource area.

### Procedures

All drill sites were pre-selected by Nayarit Gold management before drilling. Sites were located in the field by handheld GPS units and drill pads constructed using a D-7 Caterpillar tractor. Drill alignment was established on the drill pads by handheld Brunton compass before the rig was moved onto the pad and alignment and inclination checked by the rig geologist before drilling commenced. For diamond core drilling, all drill operations were carried out by the drill contractor's personnel. Rig geologists visited the drill a minimum of two times per day and were required to be present at the rig when difficult drilling or bad ground conditions were encountered. Core is retrieved from the drill string using conventional wireline techniques. Core is removed from the core tube by HD drilling personnel and carefully placed in plastic core boxes. Filled core boxes are removed from the drill site twice daily (early morning and evening) by Nayarit Gold personnel to the secure core logging facility in Acaponeta, Nayarit, 40 km from the Orion Project site. For reverse circulation drilling, the rig geologist was present at the drill during all drilling operations. All drillhole collars have been surveyed with differential GPS for location and have down hole surveys to measure hole deviation at approximately 50m intervals taken with a Reflex EZ Shot digital survey tool. All project coordinates are maintained in WGS 84 UTM zone 13R.

At the core logging facility, the core is cleaned and the broken core pieces reassembled to a best fit. For logging and sample interval marking, the core is laid out on workbenches. A technician, under supervision of the drill geologist, completes a hardcopy geotechnical log of the core including recovery and RQD. The drill geologist then logs the core and creates a hardcopy geologic log including a graphic representation of rock type, vein orientation, and mineralized zones and a detailed descriptive log including rock type, alteration, structure, mineralization and vein density/percentage. Digital photographs are taken of all cores.

## Interpretation of Results

Drilling has confirmed that the project is host to a series of epithermal gold-silver veins. These veins have been traced for lengths up to +4 km in length along surface, with deeper drilling showing the veins consistently present up to 400 metres below surface. Mineralization is not ubiquitous throughout the veins and structural and geochemical parameters play an important part in the deposition of metals at levels considered to be potentially economic. Of the rock types observed in drill core, the andesite crystal-lithic tuff illustrates the tendency for fracturing and thus prime target for mineralization, especially where the unit shows dilatant flexure.

## Sampling and Analysis

### Sample Methods and Location

Core is transported from the drill site to Nayarit Gold's secure core logging facility in Acaponeta by company personnel. Core box numbers are checked and core is cleaned and re-assembled by technicians prior to measurement of total core recovery. Technicians measure total core recovery, RQD, fracture characteristics and rock strength as estimated using the method from a 1726 geotechnical site investigation code 1993. After re-assembly and geotechnical logging geologists make a geological log of the core and mark the sample intervals directly on the core. Geologists are instructed to collect sample lengths with a minimum length of 0.5m and a maximum length of 1.5m sample with a nominal 1m interval adjusting based on rock type changes so that wall rock is not mixed with vein material except in cases of small, isolated veins. Sample intervals are adjusted to vein and breccia zone boundaries and rock type changes. Sample intervals are marked on the core and adjacent to the core in the box. A cut line is drawn along the length of the core by the geologists. All sampled core is sawn in half and returned to the box. After sawing core samples were collected by technicians always taking the left hand side of the core and leaving the right hand side in the box. Samples have an approximate 4kg weight. Samples were shipped to ALS Chemex using a commercial freight service contracted by ALS Chemex. All core handling from retrieval from the core tube through washing, re-assembly, geotechnical and geologic logging and sampling is done under the supervision of Nayarit Gold's geologists. Nayarit Gold has implemented a QA-QC procedure as described below.

### Factors Impacting Accuracy of Results

As with all drill programs recovery issues can impact accuracy of results. Drilling of mineralized zones, such as the Del Norte zone, which is clay altered in places can result in loss of heavier fractions and lower percentage core recoveries, which can affect the obtained results. Generally, Nayarit has not observed such recovery issues that would raise concern except for several drill holes at Lazaro where core recoveries through what was believed to be a mineralized zone were low.

### Quality Controls and Quality Assurance

Prior to May 2008, Nayarit Gold's Quality Assurance/Quality Control (QA/QC) sample program consisted of blank and duplicate samples. After this date Nayarit Gold implemented a program that included blank, duplicate and standard samples. Approximately 10% of all samples submitted to the primary assay laboratory are for QA/QC purposes.

The QA/QC program includes insertion of commercially prepared gold and silver pulp standards at a frequency of 4 per 100 samples. Standards used cover a range of gold and silver concentrations. The standard samples have color-coded tags which are placed in the core boxes and in the sample number booklets which can be used to confirm which standard was submitted for any specific sample number.

#### Security of Samples

Samples are shipped from Nayarit Gold's core processing facility in Acaponeta, Nayarit to ALS Laboratory Group (ALS) located in Hermosillo, Sonora Mexico. Sample shipment from the Orion Project to this facility is part of the service provided by ALS and is contracted by ALS to a third party shipping company. At ALS Hermosillo, samples are entered into the Laboratory Information Management System (LIMS) and prepared for analysis. Once sample preparation is completed, the sample pulps are shipped on to ALS Vancouver for analysis by Fire Assay and inductively coupled atomic emission spectrometry (ICP-AES).

ALS Hermosillo and ALS Vancouver are in compliance for the requirements of ISO 9001:2000 through February 12, 2011 (ALS Laboratory Group, 2009). ALS Vancouver is accredited through the Standards Council of Canada (SCC) for Metallic Ores and Products Mineral Analysis testing for several techniques including Fire Assay with an Atomic Absorption (AA) finish, Fire Assay with a gravimetric finish and ICP-AES using a four acid digestion. This is under CAN-P-1579 Guidelines for the Accreditation of Mineral Analysis Testing Laboratories and CAN-P-4E (ISO/IEC 17025) General Requirements for the Competence of Testing and Calibration Laboratories. This accreditation is valid through May 18, 2013 (Standards Council of Canada, 2009).

Samples are in the custody and control of Nayarit Gold, the shipping contractor or ALS at all times.

On arrival at ALS Hermosillo, samples are inventoried, weighed, assigned a barcode and entered into the LIMS. Once these activities are completed the samples are prepared for as follows: 1. Samples are dried in a drying oven, 2. The entire sample is crushed to 90% passing -2mm; 3. A 1,000g split is pulverized to 85% -75 microns; and 4. This pulp is sent to ALS Vancouver for analysis.

ALS Chemex returns all pulps and coarse rejects to Nayarit Gold. Pulps and rejects are stored in the company warehouse in Acaponeta, Nayarit. It is Nayarit Gold's intention to discard all coarse rejects collected through the end of 2008 upon completion of preliminary metallurgical studies and publication of the relevant technical report.

#### Mineral Resources and Mineral Reserve Estimates

SRK Consulting (U.S.), Inc ("SRK") was contracted by the Company to complete a Canadian National Instrument ("NI") 43-101 compliant Preliminary Economic Assessment ("PEA") for the Company's Animas/Del Norte Deposit.

This study is based extraction of indicated and inferred resources using underground mining methods with milling and tank leaching for processing. The Orion Resource Statement (using an underground extraction based assessment with a 2.0 g/t gold equivalent cutoff) as estimated by SRK is 1.107 million tonnes with a gold grade of 3.66 g/t and silver grade of 309 g/t in the Indicated category, and an additional 0.181 million tonnes with a gold grade of 3.33 g/t and silver grade of 95 g/t in the Inferred category.

The results of the PEA have identified the underground mining of 1.182 million tonnes with a gold grade of 2.79 g/t and silver grade of 267 g/t.

Assuming 100% equity financing, the PEA indicates a pre-tax Internal Rate of Return (“IRR”) of 38%. The estimated payback period is approximately 2.3 years (Base Case).

The following table illustrates the Base Case data and NPVs at various discount rates.

PEA base data:

Base Case	
Life-of-Mine Mill Recovered Equivalent Gold Ounces*	246k oz AuEq
Production Rate	750 tpd      20k oz Au/yr 1.785M oz Ag/yr
Development Timeline	2 Years
Initial Capital	US\$35 Million
Cash Costs	US\$320/gold equivalent ounce
Payback Period (NPV 8% Case)	2.3 years
Mine Life	5 years
Gold Price	US\$900/oz
Silver Price	US\$15/oz
NPV's and IRR	
Pre-tax NPV 3%	US\$55.3 million
Pre-tax NPV 5%	US\$46.5 million
Pre-tax NPV 8%	US\$35.4 million
Pre-tax IRR	38%

\*Gold Equivalent Values were calculated based on 60 ounces of silver = 1 ounce of gold. Metallurgical recoveries for mill processing are based on previous metallurgical analysis and are 92% for gold and 88% for silver.

The PEA is founded on underground resources at the Animas/Del Norte Deposit. SRK examined different mining and processing options, and trade-off scenarios to identify the optimum mining scenario. This examination determined that an underground bulk mining method as the optimized mining method for the Animas/Del Norte Deposit. The deposit has an Indicated resource of 967,000 tonnes with a gold grade of 3.63 g/t and a silver grade of 347 g/t (or 9.42 g/t gold equivalent) containing 113,000 ounces of gold and 10.79M ounces of silver (or 293,000 gold equivalent ounces). An additional Inferred resource contains 39,000 tonnes with 3.74 g/t Au and 349 g/t silver (or 9.55 g/t gold equivalent) containing 5,000 ounces of gold and 436,000 ounces of silver (or 12,000 gold equivalent ounces). These resources are based on a 2.0 g/t gold equivalent cutoff and a gold price of US\$850/oz and a silver price of US\$13/oz.

The Deposit is located within and surrounded by high-priority exploration targets, where the company believes additional mineralization will be discovered which could enhance the project economics. The Deposit is in a very favorable location with excellent infrastructure with access to industrial power, roads and a skilled work force.



### Mining Operations

There are no current mining operations on the Orion Project.

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

### Other Properties

We currently lease our headquarters located in New York, New York consisting of a suite of offices of approximately 3,800 square feet. We also lease an administrative office in Caborca, Sonora, Mexico located near our El Chanate mine as well as an exploration office in Hermosillo, Sonora, Mexico.

In connection with our acquisition of Nayarit Gold on August 2, 2010, we assumed a lease for office space in Halifax, Nova Scotia, Canada of approximately 1,480 square feet.

### Item 3. Legal Proceedings

On October 4, 2010, Walter Earl Jenkins and Jonathan Schroeder, each represented by the same law firm, filed identical lawsuits against Capital Gold, its directors and Gammon Gold in New York Supreme Court claiming, among other things, that the directors of Capital Gold breached their fiduciary duties to Capital Gold in connection with the approval of the merger agreement between Capital Gold and Gammon Gold. The plaintiffs purport to represent a class of all stockholders of Capital Gold stock other than stockholders who are affiliates of Capital Gold. The plaintiffs have asked the Court to enjoin Capital Gold from consummating its merger with Gammon Gold.

On October 7, 2010, Mel Leone filed a lawsuit against Capital Gold, its directors and Gammon Gold in New York Supreme Court.

On October 8, 2010, W. Jeffrey Kramer filed a lawsuit against Capital Gold, its directors, its Chief Financial Officer and Gammon Gold in New York Supreme Court.

On October 8, 2010, Helmut Boehm filed a lawsuit against Capital Gold, its directors, Gammon Gold and Capital Gold AcquireCo, Inc., a wholly-owned subsidiary of Gammon Gold, in the Court of Chancery in the state of Delaware.

Each of the above-referenced complaints state claims and seek relief substantially identical to the claims made and relief sought in the Jenkins and Schroeder lawsuits. Capital Gold believes all plaintiffs' allegations are without merit and intends to vigorously defend itself against such allegations.

### Item 4. (Removed and Reserved)

## PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

(a) Marketing Information -- The principal U.S. market in which our common shares (all of which are of one class, \$.0001 par value common stock) are traded or will trade is in the NYSE EURONEXT (Symbol: "CGC").

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 as reported by the OTC Bulletin Board and NYSE EURONEXT (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions).

## MARKET PRICE OF COMMON STOCK

Quarter Ending	High and Low	
July 31, 2010	4.24	3.16
April 30, 2010	3.90	3.66
January 31, 2010	4.24	2.94
October 31, 2009	3.12	2.36
July 31, 2009	2.88	2.12
April 30, 2009	2.84	2.08
January 31, 2009	2.52	1.20
October 31, 2008	2.60	1.08

Our common stock also trades on the Toronto Stock Exchange under the symbol "CGC." The high and low closing prices for our common stock for the periods indicated below are as follows:

Quarter Ending	High and Low	
	US\$/CDN\$	US\$/CDN\$
Quarter ended July 31, 2010	4.24 / 4.39	3.12 / 3.31
Quarter ended April 30, 2010	3.90 / 4.00	3.19 / 3.38
Quarter ended January 31, 2010	4.19 / 4.40	2.94 / 3.12
Quarter ended October 31, 2009	3.09 / 3.32	2.39 / 2.56
Quarter ended July 31, 2009	2.84 / 3.16	2.12 / 2.48
Quarter ended April 30, 2009	2.84 / 3.60	2.08 / 2.52
Quarter ended January 31, 2009	2.48 / 3.04	1.16 / 1.40
Quarter ended October 31, 2008	2.60 / 2.72	1.00 / 1.28

(b) Holders -- The approximate number of record holders of our Common Stock, as of October 1, 2010 amounts to 390, inclusive of those brokerage firms and/or clearing houses holding our common shares for their clientele (with each such brokerage house and/or clearing house being considered as one holder). The aggregate number of shares of Common Stock outstanding is 61,202,028 as of October 1, 2010.

(c) Dividends – We have not paid or declared any cash dividends upon our Common Stock since inception and, by reason of our present financial status and our contemplated financial requirements, do not contemplate or anticipate paying any cash dividends upon our Common Stock in the foreseeable future.

We did not repurchase any of our securities during the fiscal year ended July 31, 2010.

The following table gives information about our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of July 31, 2010.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average Exercise price of Outstanding options, warrants and rights	Number of securities Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:	618,750	\$ 2.84	2,819,766
Equity compensation plans not approved by security holders:	-	\$ -	N/A
<b>Total</b>	<b>618,750</b>	<b>\$ 2.84</b>	<b>2,819,766</b>

Performance Graph

Total Return To  
Shareholders  
(Includes reinvestment of  
dividends)

QUARTERLY RETURN  
PERCENTAGE  
Quarter Ending

Company / Index	10/31/07	1/31/08	4/30/08	7/31/08	10/31/08	1/31/09	4/30/09	7/31/09	10/31/09	1/31/10	4/30/10	7/31/10
Capital Gold Corporation	36.07	10.48	-6.61	-0.77	-55.04	115.52	13.60	12.04	27.27	-4.55	24.49	1.91
Russell 3000 Index	6.44	10.83	1.14	-7.12	-24.31	-14.01	7.61	13.92	5.14	4.78	12.28	-7.22
S&P SmallCap 600 Index	5.12	12.65	1.20	-1.48	-22.43	-18.20	11.89	13.71	1.43	7.69	18.99	-8.31
Peer Group	5.64	18.49	1.12	14.03	-63.09	62.24	5.86	22.80	14.28	19.89	40.62	-26.66

INDEXED  
RETURNS  
Quarter  
Ending

Company / Index	Base Period	8/1/07	1/31/08	4/30/08	7/31/08	10/31/08	1/31/09	4/30/09	7/31/09	10/31/09	1/31/10	4/30/10	7/31/10
Capital Gold Corporation	100	136.07	150.32	140.39	139.31	62.63	134.99	116.68	130.67	166.31	158.75	197.62	201.40
Russell 3000 Index	100	106.44	94.91	95.99	89.16	67.48	58.03	62.44	71.14	74.79	78.36	87.98	81.63
S&P SmallCap 600 Index	100	105.12	91.82	92.92	91.55	71.01	58.09	65.00	73.91	74.96	80.73	96.06	88.08
Peer Group	100	105.64	86.10	87.07	99.28	36.64	59.45	62.93	77.28	88.32	105.89	148.90	109.20

Peer Group  
Companies:  
ALAMOS GOLD  
INC  
GAMMON  
GOLD INC  
MINEFINDERS  
CORP  
NEW GOLD INC

## ITEM 6. Selected Financial Data.

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements, and the related notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in this Annual Report. The statement of operations and balance sheet data presented below for, and as of the end of, each of the years in the five year period ended July 31, 2010 are derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results to be expected in the future. The Selected Financial Data is in thousands except for share and per share data.

	Fiscal Year Ended July 31				
	2010	2009	2008	2007	2006
<b>Statement of Operations data:</b>					
Revenues	\$ 60,645	\$ 42,757	\$ 33,104	\$ -	\$ -
Net Income (loss)	\$ 11,994	\$ 10,407	\$ 6,364	\$ (7,472)	\$ (4,805)
Income (loss) per share –					
Basic*	\$ 0.25	\$ 0.22	\$ 0.15	\$ (0.20)	\$ (0.17)
<b>Balance Sheet data:</b>					
Total Assets	\$ 72,495	\$ 52,484	\$ 50,578	\$ 27,368	\$ 9,546
Long-term Debt	\$ 800	\$ 4,400	\$ 8,375	\$ 12,500	\$ -
Reclamation and Remediation Liability	\$ 2,373	\$ 1,594	\$ 1,666	\$ 1,249	\$ -

\* - All Income (loss) per share – Basic amounts have been restated to reflect the impact of the 4 to 1 reverse stock split enacted during the fiscal year ended July 31, 2010.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion relates to the three fiscal years ended July 31, 2010, 2009 and 2008. As disclosed in greater detail elsewhere in this report, we commenced mining operations and began to receive operating revenues in August 2007, shortly after the end of the fiscal year ended July 31, 2007. (the financial data in this discussion is in thousands, except where otherwise specifically noted).

We utilize certain non-GAAP performance measures and ratios in managing the business. We believe these measures may provide users with additional meaningful comparisons between current results and results in prior operating periods. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, the reported operating results or cash flow from operations or any other measure of performance prepared in accordance with accounting principles generally accepted in the United States. In addition, the presentation of these measures may not be comparable to similarly titled measures other companies use "Cash costs per ounce sold" is a non-GAAP measure which includes all direct mining costs, refining and transportation costs and by-product credits as well as royalties as reported in the Company's financial statements. "Total cost per ounce sold" is a non-GAAP measure which includes "cash costs per ounce sold" as well as depreciation and amortization as reported in the Company's financial statements.

Overview

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 report.

Our financial position was as follows:

	As of July 31, 2010	As of July 31, 2009
Total debt	\$ 4,400	\$ 8,000
Total stockholders' equity	\$ 50,929	\$ 35,765
Cash and cash equivalents	\$ 12,125	\$ 6,448
Working capital	\$ 31,857	\$ 20,646

During our fiscal year ended July 31, 2010 our debt and liquidity positions were affected by the following:

- Net cash provided from operations of \$14,731;
- Capital expenditures of \$6,515;

- Repayments on Credit Facility of \$3,600;
- Proceeds from the issuance of common stock upon the exercising of warrants of \$565;

### Looking Forward

Certain key factors will affect our future financial and operating results. These include, but are not limited to, the following (the financial data in this discussion is in thousands except for ounces and cash cost data):

- Fluctuations in gold prices;
- We expect fiscal 2011 gold sales of approximately 65,000 to 70,000 ounces;
- Cash costs per ounce sold for fiscal 2011 are expected to be approximately \$485 per ounce;
- We anticipate capital expenditures of approximately \$12,500 in fiscal 2011 with approximately \$7,200 being allocated to leach pad expansion, approximately \$1,500 for the addition of agglomeration equipment, \$750 in property interest payments; and \$600 for additional conveyors;
- Repayments on Credit Facility of \$3,600 during fiscal 2011.
- Our fiscal year 2011 expectations, particularly with respect to sales volumes and cash costs per ounce sold, may differ significantly from actual quarter and full fiscal year results due to variations in: ore grades and hardness, metal recoveries, waste removed, commodity input prices, foreign currencies and gold sale prices.

### Result of Operations

Fiscal year ended July 31, 2010 compared to the year ended July 31, 2009

Net income for the year ended July 31, 2010 and 2009 was approximately \$11,994 and \$10,407, respectively, representing an increase of approximately \$1,587 or 15% over the prior period. Income before taxes was \$24,019 and \$15,949 for the year ended July 31, 2010 and 2009, respectively, which represented an increase of 51%. Income before taxes increased primarily as a result of higher revenues from a higher gold price being realized on ounces sold during the current period as well as higher production results during the year ended July 31, 2010, as compared to the same period a year ago.

As a result of management changes during the year ended July 31, 2010, we incurred severance related charges to executives and employees of approximately \$2,710 within general and administrative expense. If we exclude these charges, net income for the year ended July 31, 2010 would have been approximately \$14,704 representing an increase of approximately \$4,297 or 41% over the prior period.

### Revenues & Costs Applicable to Sales

Gold sales for the year ended July 31, 2010 totaled approximately \$60,645 as compared to \$42,757 in the prior period representing an increase of approximately \$17,888 or 42%. We sold 54,304 ounces at an average realizable price per ounce of approximately \$1,117 in the current period. We sold 48,418 ounces at an average realizable price per ounce



of \$883 during the same period last year.

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Costs applicable to sales were approximately \$22,017 and \$13,883, respectively, for the year ended July 31, 2010 and 2009, an increase of approximately \$8,134 or 59%. Cash costs were \$391 per ounce of gold sold for the year ended July 31, 2010 as compared to \$271 for the year ended July 31, 2009. The primary reasons for this increase in cash cost per ounce sold in the current period were attributable to:

- An increase in mining costs of approximately \$4,764 or 55% over the prior period. This was primarily due to higher mining contractor costs of approximately \$2,637 compared to the prior period primarily due to an increase in tonnage mined of 3,216,468 tonnes or 39%, higher diesel fuel consumption of \$1,156 due to an increase in tonnage mined and longer haul distance as the pit deepens, and higher explosive costs of \$750 due to the increase in tonnage mined as well as a change in the type of explosive utilized by the mine;
- Higher crushing costs of approximately \$946, an increase of 36% over the prior period, mainly due to an increase in maintenance and the usage of crusher parts and supplies. This increase was attributable to the addition of our new secondary and tertiary crusher in May and December 2009, respectively, which increased tonnage going through the circuit by 13% or 516,000 tonnes as compared to the prior year. In addition, labor costs rose as a result of the hiring of additional crusher operators.
- An increase in leaching and ADR plant costs of approximately \$1,975 or 37% mainly due to an increase in consumption of certain chemicals (\$1,209) as well as consumption and price increase in cost of lime (\$352) in the processing of ore as well as an increase in both water (\$103) and electricity (\$137) usage (the increased consumption was mainly the result of increasing the chemical concentration and solution flow to the leach pad as we increased the level of lifts or height of the leach pad as well as the surface area under leach with the additional leach pad.
- Higher heavy equipment maintenance costs of approximately \$559 or 53% over the same period in the prior year. This was primarily due to an increase in repair and maintenance costs associated with our three trucks and two loaders. The additional tonnage moved in the current year as well as higher repairs and maintenance costs experienced with the procurement of used equipment has factored into the increase as compared to the prior year.

Total costs were \$444 per ounce of gold sold for the year ended July 31, 2010 as compared to \$314 total cost per ounce sold in the prior period. The primary reason for this increase in total costs can be attributable to the reasons detailed above as well as the increase in depreciation and amortization resulting from capital expenditures during the current period.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$1,400 and \$1,076 for the year ended July 31, 2010 and 2009, on silver ounces sold of 80,941 and 86,523, respectively.

### Depreciation and Amortization

Depreciation and amortization expense during the year ended July 31, 2010 and 2009 was approximately \$2,939 and \$2,041, respectively, an increase of \$898 or 44%. The primary reason for the increase in the current period was attributable to an increase in depreciation and amortization charges related to property, plant and equipment additions.

### General and Administration Expense

General and administrative expenses during the year ended July 31, 2010 were approximately \$8,573, an increase of approximately \$3,109, or 57%, from the year ended July 31, 2009. This increase resulted primarily from one-time severance related charges to executives and employees of approximately \$2,710. In addition, we experienced higher legal and professional fees associated with merger and acquisition activity including our acquisition with Nayarit Gold of approximately \$996.

### Exploration Expense

Exploration expense during the year ended July 31, 2010 and 2009 was approximately \$1,616 and \$1,600, respectively, or a increase of \$16, or 1%. Both periods presented include activity associated with on-going exploration, drilling and geochemical work being conducted on our leased and owned concessions located northwest of Saric, Sonora as well as on-going drilling at our El Chanate mine.

### Other Income and Expense

Our loss on the change in fair value of derivative instruments during the year ended July 31, 2010 and 2009, was approximately \$0 and \$1,975, respectively, and was reflected as Other Expense. The primary reason for the decrease can be attributed to the close out, on February 24, 2009, with Standard Bank, Plc., of the remaining 58,233 ounces of gold hedged under the original Gold Price Protection arrangements originally entered into in March 2006.

Interest expense was approximately \$1,365 for the year ended July 31, 2010 compared to approximately \$1,575 for the same period a year earlier. This decrease was due to lower interest charges incurred during the current period, based on a lower average debt balance compared to the prior period offset by cost of interest rate swaps. As of July 31, 2010 and 2009, there was \$4,400 and \$8,000, respectively, outstanding on our term note with Standard Bank. Interest expense also includes amortization of deferred financing costs resulting from the credit arrangements entered into with Standard Bank. This accounted for approximately \$993 and \$978 of amortization expense during the year ended July 31, 2010 and 2009, respectively.

### Income Tax Expense

Income tax expense was \$12,025 during the fiscal year ended July 31, 2010, compared to \$5,542 in 2009 with an effective tax rate of 50% and 35%, respectively. The factors that most significantly impact our effective tax rate are operating losses generated by the Company's U.S. parent for which no benefit has been recognized. Current year income tax expense and deferred income tax expense amounted to \$8,062 and \$3,963 as of July 31, 2010, respectively. Prior year income tax expense and deferred income tax expense amounted to \$3,909 and \$1,633 as of July 31, 2009, respectively.

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

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

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

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

Based on the uncertainty and inherent unpredictability of the factors influencing our effective tax rate and the sensitivity of such factors to gold and other metals prices as discussed above, the effective tax rate is expected to be volatile in future periods.

For more information concerning income taxes, please see Note 22 within the consolidated financial statements contained herein.

#### Changes in Foreign Exchange Rates

During the years ended July 31, 2010 and 2009, we recorded equity adjustments from foreign currency translations of approximately \$1,463 and \$(8,355), respectively. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the U.S. dollar and are included as a component of other comprehensive income. The Mexican Peso and the U.S. dollar exchange rate as of July 31, 2010 was 12.7012. As of July 31, 2009, such exchange rate was 12.9933.

## Summary of Annual Results

(000's except per share Data and ounces sold)

	For the year ended July 31, 2010	For the year ended July 31, 2009	For the year ended July 31, 2008
Revenues	60,645	42,757	33,104
Net Income	11,994	10,407	6,364
Basic net income per share	0.25	0.22	0.15
Diluted net income per share	0.25	0.21	0.13
Gold ounces sold	54,304	48,418	39,102
Average price received	\$ 1,117	\$ 883	\$ 847
Cash cost per ounce sold(1)	\$ 391	\$ 271	\$ 276
Total cost per ounce sold(1)	\$ 444	\$ 314	\$ 335

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

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

	For the year ended July 31, 2010	For the year ended July 31, 2009	For the year ended July 31, 2008
Reconciliation from non-GAAP measure to US GAAP			
Cash cost per ounce sold	\$ 391	\$ 271	\$ 276
Intercompany management fee	12	14	10
Other	2	2	(13)
Costs applicable to sales per ounce sold*	\$ 405	\$ 287	\$ 273

\*This measurement excludes depreciation and amortization.

## Summary of Results of Operations

	For the year ended July 31, 2010	For the year ended July 31, 2009	For the year ended July 31, 2008
Tonnes of ore mined	4,586,875	3,847,883	3,498,612
Tonnes of waste removed	6,797,425	4,319,949	2,627,318
Ratio of waste to ore	1.48	1.12	0.75
Tonnes of ore processed	4,515,152	3,999,346	3,529,699
Grade (grams/tonne)	0.74	0.78	0.85
Gold (ounces)			
- Produced(3)	55,746	49,921	39,242

- Sold	54,304	48,418	39,102
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(3)Gold produced each year does not necessarily correspond to gold sold during the year, as there is a time delay in the actual sale of the gold.

Fiscal year ended July 31, 2009 compared to fiscal year ended July 31, 2008

Net income for the years ended July 31, 2009 and 2008 was approximately \$10,407 and \$6,364, respectively, representing an increase of approximately 64% over the prior period. Net income before income taxes was \$15,949 and \$9,871 for the years ended July 31, 2009 and 2008, respectively, which represented an increase of 62%. Net income and net income before taxes increased primarily as a result of higher revenues from more ounces of gold being sold during the year ended July 31, 2009, as compared to the same period a year ago. Income tax expense increased in conjunction with the increase in net income before tax, which was anticipated.

#### Revenues & Costs Applicable to Sales

Gold sales for the fiscal year ended July 31, 2009 totaled approximately \$42,757 as compared to \$33,104 in the prior period representing an increase of approximately \$9,653 or 29%. We sold 48,418 ounces at an average realizable price per ounce of approximately \$883 in the current period. We sold 39,102 ounces at an average realizable price per ounce of \$847 during the same period last year.

Costs applicable to sales were approximately \$13,883 and \$10,690, respectively, for the year ended July 31, 2009 and 2008, an increase of approximately \$3,193 or 30%, which increased in conjunction with our increase in revenues. Cash costs of \$271 per ounce of gold sold for the year ended July 31, 2009 was 2% lower than the \$276 for the year ended July 31, 2008. The primary reason for this decrease in cash costs in the current year can be attributed to the 10% net profit interest paid to Royal Gold which was primarily incurred in the prior fiscal year. This was offset by a higher waste-to-ore strip ratio of 1.12 to 1 experienced during the fiscal year ended July 31, 2009 as compared to the prior fiscal year of 0.75 to 1. Our increased production profile in the current fiscal year advanced the removal of more waste tonnes than in the prior year. Total costs of \$314 per ounce of gold sold for the year ended July 31, 2009, was 6% lower than the \$335 total cost in the prior period. The primary reason for this decrease in total costs was attributed to higher amortization charges recorded in the prior period related to the repurchase of the 5% net profit interest acquired from FG in 2006 for \$500.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$1,076 and \$707 for the year ended July 31, 2009 and 2008, on silver ounces sold of 86,523 and 40,461, respectively.

#### Depreciation and Amortization

Depreciation and amortization expense during the year ended July 31, 2009 and 2008 was approximately \$2,041 and \$2,350, respectively. The primary reason for the decrease of approximately \$309, or 13%, was due to amortization charges recorded in the prior period related to the repurchase of the 5% net profit interest acquired from FG in 2006 for \$500. The \$500 was fully amortized during the quarterly period ended April 30, 2008. This was slightly offset by an increase in Units-of-Production depreciation and amortization mainly attributable to additional ounces being produced in the current period versus the same period in the prior year.

### General and Administration Expense

General and administrative expenses during the year ended July 31, 2009 were approximately \$5,464, a decrease of approximately \$122, or 2%, from the year ended July 31, 2008. The decrease in general and administrative expenses resulted primarily from: 1) lower salaries and wages primarily due to a decrease in cash bonuses of approximately \$345 during the current fiscal year compared to the prior year, 2) lower equity based compensation of approximately \$93 as compared to the prior year, 3) lower investor relations and travel expenses of approximately \$87. Offsetting these decreases were higher legal and financial advisor fees incurred as a result of merger and acquisition activity during the current year as well as higher audit fees associated with the attestation report issued on the effectiveness of our internal controls during the current period.

### Exploration Expense

Exploration expense during the year ended July 31, 2009 and 2008 was approximately \$1,600 and \$938, respectively, or an increase of \$662, or 71%. The primary reason for the increase can be attributed to increased activity during the current period associated with on-going exploration, drilling and geochemical work being conducted on our leased and owned concessions located northwest of Saric, Sonora. Exploration expense for the current period also included costs incurred from a 10 hole, deep core drilling campaign at our El Chanate mine totaling 2,500 meters. Exploration expense in the prior period included a drilling campaign initiated in December 2007 at El Chanate which consisted of 26 reverse circulation holes amounting to 4,912 meters. These drill holes were mainly positioned to test the outer limits of the currently known ore zones within the pit.

### Other Income and Expense

Our loss on the change in fair value of derivative instruments during the year ended July 31, 2009 and 2008, was approximately \$1,975 and \$1,356, respectively, and was reflected as Other Expense. The primary reason for the increase can be attributed to the settlement, on February 24, 2009, with Standard Bank, Plc., the remaining 58,233 ounces of gold under the original Gold Price Protection arrangements entered into in March 2006. The purpose of these arrangements at the time was to protect us in the event the gold price dropped below \$500 per ounce. Total remuneration to unwind these arrangements was approximately \$1,906. In conjunction with the settlement of the gold price protection agreements, we incurred an Other Expense of approximately \$1,391 during the current period. These contracts were not designated as hedging derivatives; and therefore, special hedge accounting does not apply.

Interest expense was approximately \$1,575 for the year ended July 31, 2009 compared to approximately \$2,295 for the same period a year earlier. This decrease was mainly due to lower interest charges incurred during the current period related to our credit arrangements with Standard Bank. As of July 31, 2009, there was \$8,000 outstanding on our term note. Interest expense also includes deferred financing costs resulting from the credit arrangements entered into with Standard Bank. This accounted for approximately \$978 and \$1,088 of depreciation and amortization expense during the year ended July 31, 2009 and 2008.



## Income Tax Expense

Income tax expense was \$5,542 during the fiscal year ended July 31, 2009, compared to \$3,507 in 2008 with an effective tax rate of 35% and 35%, respectively. The factors that most significantly impact our effective tax rate are valuation allowances related to deferred tax assets offset partially by lower statutory tax rates in Mexico. Current year income tax expense and deferred income tax expense amounted to \$3,909 and \$1,633 as of July 31, 2009, respectively. Prior year income tax expense and deferred income tax expense amounted to \$2,111 and \$1,396 as of July 31, 2008, respectively.

Mining operations are primarily conducted in Mexico. Mexico has tax laws, tax incentives and tax rates that are significantly different than those of the United States. On October 1, 2007, the Mexican government enacted legislation which introduced certain tax reforms as well as a new minimum flat tax system. This new flat tax system integrates with the regular income tax system and is based on cash-basis net income that includes only certain receipts and expenditures. The flat tax is set at 17.5% of cash-basis net income as determined, with transitional rates of 16.5% and 17.0% in 2008 and 2009, respectively. If the flat tax is positive, it is reduced by the regular income tax and any excess is paid as a supplement to the regular income tax. If the flat tax is negative, it may serve to reduce the regular income tax payable in that year or can be carried forward for a period of up to ten years to reduce any future flat tax.

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that we will not be liable for any excess flat tax for calendar year 2009 and, accordingly, have recorded a Mexican income tax provision as of July 31, 2009.

As the new legislation was recently enacted, it remains subject to ongoing varying interpretations. There is the possibility of implementation amendments by the Mexican government and the estimated future income tax liability recorded at the balance sheet date may change.

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

During the fiscal years ended July 31, 2009 and 2008, we completed a reconciliation of our U.S. book and tax basis assets and liabilities as well as a detailed analysis of our income taxes payable.

Based on the uncertainty and inherent unpredictability of the factors influencing our effective tax rate and the sensitivity of such factors to gold and other metals prices as discussed above, the effective tax rate is expected to be volatile in future periods.

For more information concerning income taxes, please see Note 22 within the consolidated financial statements contained herein.

### Changes in Foreign Exchange Rates

During the years ended July 31, 2009 and 2008, we recorded equity adjustments from foreign currency translations of approximately \$(8,355) and \$2,504, respectively. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the U.S. dollar and are included as a component of other comprehensive income. The Mexican Peso and the U.S. dollar exchange rate as of July 31, 2009 was 12.9933 to 1. As of July 31, 2008, such exchange rate was 10.0483 to 1.

### Liquidity and Capital Resources

#### Operating activities

Cash provided by operating activities during the year ended July 31, 2010 and 2009 was \$14,731 and \$7,536, respectively. Cash provided by operating activities increased \$7,195 as compared to the year ended July 31, 2009, primarily due to higher net income resulting from an increase in the average gold price received for ounces sold, an increase in the change in inventory balances between periods of \$5,537, and an increase in accrued expenses of \$4,447 mainly due to the accruals associated with one-time severance related charges to executives and employees as well as an increase in our income tax accrual during the year ended July 31, 2010.

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

On March 25, 2010, we elected not to pursue the implementation of the MRS technology at the El Chanate mine. Accordingly, we demanded repayment of the amounts paid to MRS in accordance with the letter agreement between MRS and us. On May 12, 2010, the parties agreed to reduce the MRS Repayment to \$450 and we are currently receiving repayment based on the original Collateral Agreement. We recorded the remaining receivable amount of \$210 as of July 31, 2010 as an Other Current Asset.

#### Investing Activities

Cash used in investing activities during the year ended July 31, 2010, amounted to approximately \$6,515, primarily for the acquisition of an additional tertiary crusher and screen plant, additional water rights, additional leach pad expansion, as well as new platform upgrades for three of our crushers.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately \$7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the aggregate capacity will be approximately 20.1 million tonnes. This capital expenditure is anticipated to be expended over the next twelve months. Site clearing was initiated in May 2010 and construction commenced in July 2010. The first panel is anticipated to be ready for stacking towards the end of the calendar year with complete construction anticipated to be completed by May 2011.

In July 2010, the Company commenced the use of belt agglomeration with cement which is added to the crushed ore at the El Chanate mine to improve the flow of leaching solution. We have engaged an independent consultant with respect to heap leaching optimization, which has resulted in recommendations to increase the barren solution flow to the leach pad, increase the pregnant solution flow to the recovery plant, and redirect the low grade solution to the leach pads. When implemented, these operational changes combined with the agglomeration with cement and barren solution may result in immediate improvements in leaching time. We ordered two agglomeration drums which are expected to arrive by January 2011. The current belt agglomeration is a temporary measure until the drums are delivered. The use of agglomeration drums will allow for better mixing of cement and lime with the crushed ore, producing a consistent quality control of the product. The cost of these agglomeration drums and an additional overland conveyor is anticipated to be \$2,000.

Cash used in investing activities during the year ended July 31, 2009, amounted to approximately \$5,174, primarily from the acquisition of an additional secondary crusher and tunnel conveyor, mobile equipment, conveyors and ADR plant equipment, including the carbon regeneration kiln.

#### Financing Activities

Cash used in financing activities during the year ended July 31, 2010 amounted to approximately \$3,148, primarily from the repayment of our term loan of \$3,600. We also received proceeds of approximately \$565 in the current period from the issuance of common stock upon the exercise of 31,250 options and 150,000 warrants. In addition, we paid \$113 in finance costs to amend our Amended and Restated Credit Agreement with Standard Bank (See "Term loan and Revolving Credit Facility" section below). Cash used in financing activities during the year ended July 31, 2009 amounted to approximately \$4,175, primarily from the repayment of the term loan of \$4,500.

#### Business Combination Agreements

On October 1, 2010, the Company and Gammon Gold Inc. ("Gammon Gold") entered into a definitive merger agreement pursuant to which Gammon Gold offered to acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the "Gammon Transaction"). The total consideration for the purchase of 100% of the fully diluted shares of Capital Gold is approximately US\$288 million or US\$4.57 per Capital Gold share based on Gammon Gold's closing price on September 24, 2010 on the NYSE. The Gammon Transaction has the unanimous support of both companies' Boards of Directors and Officers. Under the terms of the Gammon Transaction, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US\$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold's shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. The consummation of the Gammon Transaction is subject to numerous contingencies as described in the related merger agreement including, but not limited to, Capital Gold stockholder approval.

On August 2, 2010, the Company acquired Nayarit Gold, Inc. (“Nayarit”). As a result of the Business Combination, Nayarit became a wholly-owned subsidiary of the Company. In connection with the Business Combination, each outstanding share of Nayarit common stock was converted into 0.134048 shares of Capital Gold common stock, with cash paid in lieu of any fractional share. Capital Gold issued 12,454,354 shares of its common stock in the Business Combination to Nayarit's current stockholders and has reserved for issuance an additional 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the consummation of the Business Combination, the stockholders of Nayarit own approximately 20.4% of Capital Gold on a non-diluted basis.

Based on the closing price of the Company’s common stock on August 2, 2010, the consideration received by Nayarit shareholders had a value of approximately \$47.6 million as detailed below.

	Conversion Calculation	Estimated Fair Value	Form of Consideration
(In thousands, except per share amounts)			
Number of Nayarit shares outstanding as of the Amalgamation date	92,910		
Exchange ratio(1)	0.134048		
Number of shares issued to Nayarit shareholders	12,454		
Value of Capital Gold common shares issued(1)	\$ 3.71	\$ 46,206	Capital Gold Common stock
Value of Nayarit’s options and warrants to be exchanged for Capital Gold options and warrants (2)		1,393	Capital Gold Options and Warrants
Total consideration transferred		\$ 47,599	

(1) In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred was the closing market price of Capital Gold’s common stock on the effective date of the Amalgamation. The pro forma shares issued was 12,454,354 common shares, which is calculated by multiplying 0.134048 by 92,909,659, being the number of shares of Nayarit common stock outstanding on August 2, 2010. Nayarit shareholders own approximately 20.4% of the issued and outstanding shares of Capital Gold common stock.

(2) Represents the fair value to acquire 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. The fair value of the warrants and options were estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	\$3.71
	\$3.28 -
Post conversion strike price	\$9.92
Average expected volatility	70%
Dividend yield	None
Average risk-free interest rate	0.29%

Average contractual term .79 years

Black-Scholes average value  
per warrant and option \$0.57

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The expected volatility of Capital Gold's stock price is based on the average historical volatility which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants and options is based on the remaining contractual exercise term of each warrant and option. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants and options

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed on August 2, 2010:

	Fair Value (in thousands)
Cash and cash equivalents	\$ 50
Short-term investments	2
Prepaid expenses and sundry receivables	1,238
Property, plant and equipment	196
Mineral interests – indicated and inferred	43,822
Exploration interests	3,627
Accounts payable and liabilities assumed	(1,336)
Net assets acquired	\$ 47,599

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results from operations. The Company's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Nayarit's tangible and identifiable assets and liabilities. The amount allocated to the mineral and exploration interests was based on a valuation report prepared by a third party appraisal firm. The allocation is not considered final as of the date of this report as management is still reviewing certain of the underlying assumptions and calculations used in the allocation to the assets and liabilities of Nayarit that were acquired. However, the Company believes the final purchase price allocation will not be materially different than presented herein.

During the twelve months ended July 31, 2010, the Company incurred transaction costs consisting primarily of legal, professional, investment advisory and accounting fees of \$2.4 million. These costs are included in general and administrative expenses on the consolidated statement of operations.

#### Pro forma Information

The following unaudited pro forma results of operations of the Company for the fiscal years ended July 31, 2010 and 2009 assume that the acquisition of the operating assets of the significant businesses acquired during 2010 and 2009 had occurred on August 1 of the respective year in which the business was acquired and for the comparable period

only (i.e., 2010 acquisitions are reflected in 2009). These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations.

(in thousands)

	Year Ended July 31, 2010	Year Ended July 31, 2009
Revenues	\$ 60,645	\$ 42,757
Net income (loss)	\$ 10,905	\$ 2,270
Income (loss) per common share:		
Basic – net income (loss)	\$ 0.18	\$ 0.04
Diluted – net income (loss)	\$ 0.18	\$ 0.03

#### 2010 Pro forma Results – Twelve Months Ended July 31, 2010

The 2010 pro forma results were calculated by combining the results of Capital Gold with the stand-alone historical results of Nayarit Gold for the year ended June 30, 2010. The elimination of \$2.4 million in transaction related costs were made which would have been incurred during the twelve months ended July 31, 2010 had the acquisition commenced on August 1, 2009.

#### Term loan and Revolving Credit Facility

In September 2008, we closed an Amended And Restated Credit Agreement (the “Credit Agreement”) involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers (“Borrowers”), us, as guarantor, and Standard Bank PLC (“Standard Bank”), as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006. Under the Credit Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to \$12,500 (the “Term Loan”) for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. We guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of July 31, 2010, the outstanding amount on the term note was \$4,400 and accrued interest on this agreement was approximately \$11.

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

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

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



On June 30, 2010, Capital Gold Corporation (“Capital Gold” or the “Company”) entered into the First Amendment to the Amended and Restated Credit Agreement (the “Amendment”) by and among the Borrowers (as defined above), the Company, as guarantor, and Standard Bank, as the lender. The Amendment amends the Credit Agreement the parties entered into on September 18, 2008 with retroactive effect from July 17, 2008, which amended and restated the Credit Agreement between the parties dated August 15, 2006. The Credit Agreement provided for a senior secured term credit facility in the aggregate amount of \$12,500 (the “Term Facility”) and provided for a senior secured revolving credit facility in the aggregate principal amount of \$5,000 (the “Revolving Facility”). Capital Gold guarantees all obligations of the Borrowers under the Term Facility and the Revolving Facility. The material amendments to the Credit Agreement contained in the Amendment are as follows:

The Amendment increases the Revolving Facility to \$7,500. The Revolving Facility is available for a two-year period commencing June 30, 2010. The Borrowers may request a borrowing of the Revolving Facility from time to time, provided that each borrowing shall be in a minimum aggregate amount of \$500. All amounts due under the Revolving Facility, including all accrued interest and other amounts described in the Credit Agreement, shall be due and payable on June 30, 2012.

Amounts borrowed under the Term Facility and the Revolving Facility bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable interest period plus the applicable margin. The applicable margin for the Revolving Facility was increased in the Amendment to 3.0% per annum.

The Borrowers are to use the proceeds of the Revolving Facility to fund general corporate and working capital requirements in connection with the El Chanate gold mining project and the Saric gold exploration project.

The Amendment increased the Tangible Net Worth (as defined in the Credit Agreement) requirement to at least U.S.\$30,000 and requires Capital Gold to maintain at all times a Ratio of Debt to Cash Flow from Operations, as defined in the Amendment, of no greater than 2.50:1.00.

#### Debt Covenants

Capital Gold’s Credit Agreement with Standard Bank requires it, among other obligations, to meet certain financial covenants including, but not limited to, (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S. \$30,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2:50:1:00, and (iv) a quarterly average minimum liquidity of U.S. \$500. In addition, the Credit Agreement restricts, among other things, Capital Gold’s ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, Capital Gold obtained the consent of Standard Bank.

As of July 31, 2010, we were in compliance with all debt covenants and default provisions.

## Environmental and Permitting Issues

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

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

We include environmental and reclamation costs on an ongoing basis, in our revenue and cost projections. No assurance can be given that environmental regulations will not be revised by the Mexican authorities in the future. As of July 31, 2010, we have estimated the reclamation costs for the El Chanate site to be approximately \$4,094 if we had to reclaim the property as of that date. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation for the mine site. We reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of July 31, 2010 primarily due to the addition of the new leach pad in accordance with ASC guidance for asset retirement and environmental obligations. As of July 31, 2010, our reclamation and remediation liability was \$2,373.

## Contractual Obligations

Our contractual obligations as of July 31, 2010 are summarized as follows:

Contractual Obligations(5)(6)	Total	Payments Due by Period			
		Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Debt (1)	\$ 4,537	\$ 3,712	\$ 825	\$ -	\$ -
Remediation and reclamation obligations(2)	4,094	-	-	-	4,094
Operating leases(3)	522	261	261	-	-
Derivative instruments(4)	40	40	-	-	-
	\$ 9,193	\$ 4,013	\$ 1,086	\$ -	\$ 4,094

- (1) Amounts represent principal (\$4,400) and estimated interest payments (\$137) assuming no early extinguishment.
- (2) Mining operations are subject to extensive environmental regulations in the jurisdictions in which they operate. Pursuant to environmental regulations, we are required to close our operations and reclaim and remediate the lands that operations have disturbed. The estimated undiscounted cash outflows of these remediation and reclamation obligations are reflected here. For more information regarding remediation and reclamation liabilities, see Note 12 to the Consolidated Financial Statements.
- (3) Amounts represent a non-cancelable operating lease for office space in New York that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs. Also, includes an operating lease for office space in Caborca, Sonora, operating lease for office space in Hermosillo, Sonora, as well as leased concessions in Saric, Sonora for exploration.
- (4) Amounts represent the net cash settlement of interest rate swap agreement with Standard Bank.
- (5) Contractual obligations do not include the net smelter return payments as this payment is linked to the gold price and cannot be reasonably estimated given variable market conditions. As of July 31, 2010, the amount remaining

in net smelter return payments due to Royal Gold was approximately \$11,451.

- (6) Contractual obligations do not include Nayarit's contractual concession payments for the exploration rights of La Estrella of (i) \$100 in December 8, 2010, (ii) \$100 in June 8, 2011, (iii) \$175 in December 8, 2011, (iv) \$175 in June 8, 2012, (v) \$350 in December 8, 2012 or the concession payment for the exploration rights of the Huajicari concessions of \$250 due by October 31, 2010.

While we believe that our available funds in conjunction with anticipated revenues from metal sales will be adequate to cover our cash requirements for the fiscal year ending July 31, 2011, if we encounter unexpected problems we may need to raise additional capital. We also may need to raise additional capital for significant property acquisitions and/or exploration activities. To the extent that we need to obtain additional capital, management may raise such funds through the sale of our securities, obtain debt financing, and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available or on terms acceptable to us. If we need additional capital and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.

#### Recently Issued Accounting Pronouncements

See Note 3 to the Consolidated Financial Statements contained in Item 15. Financial Statements below.

#### Disclosure About Off-Balance Sheet Arrangements

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

#### Critical Accounting Policies

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

#### Ore on Leach Pads and Inventories ("In-Process Inventory")

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

##### Ore on Leach Pads

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

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

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

#### In-process Inventory

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

#### Precious Metals Inventory

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

#### Materials and Supplies

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

#### Property, Plant and Mine Development

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

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

#### Impairment of Long-Lived Assets

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

#### Reclamation and Remediation Costs (Asset Retirement Obligations)

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

#### Deferred Financing Costs

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

#### Intangible Assets

Purchased intangible assets consisting of rights of way, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is our policy to assess periodically the carrying amount of our purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of intangible assets are determined in accordance with ASC guidance for intangibles. There was no impairment at July 31, 2010.



### Fair Value of Financial Instruments

The carrying value of our financial instruments, including cash and cash equivalents, marketable securities, loans receivable, accrued expenses and accounts payable approximated fair value because of the short maturity of these instruments. The carrying amount of the Company's accounts receivable balance approximates fair value. The carrying value of the Company's long-term debt approximates fair value due to the variable nature of its interest rate.

### Revenue Recognition

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

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$1,400, \$1,076 and \$707 for the years ended July 31, 2010, 2009 and 2008, on silver ounces sold of 80,941, 86,523 and 40,461, respectively.

### Foreign Currency Translation

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

### Comprehensive Income (Loss)

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



## Income Taxes

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

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

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

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

## Equity Based Compensation

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

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

## Accounting for Derivatives and Hedging Activities

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



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

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

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

#### Use of Estimates

The preparation of financial statements in conformity with 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.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

#### Metal Price

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

#### Foreign Currency

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



## Gold Price Protection Agreement

On February 24, 2009, we settled with Standard Bank, the remaining 58,233 ounces of gold under the original Gold Price Protection arrangements entered into in March 2006. The purpose of these arrangements at the time was to protect the Company in the event the gold price dropped below \$500 per ounce. Total remuneration to unwind these arrangements was approximately \$1,906.

## Interest Rate Swap Contracts

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

## Market Risk Disclosures

July 31, 2010  
(in thousands)

Instruments entered into for hedging purposes -

Type of Derivative	Notional Size	Fixed Price or Strike Price	Underlying Price	Termination or Expiration	Fair Value
Interest Rate Swaps	\$ 1,969(1)	5.30%	3 Mo. USD LIBOR	12/31/2010	\$ (40)

(1) The value shown reflects the notional as of July 31, 2010. Over the term of the swap, the notional amortizes, dropping to approximately \$1,313.

As of July 31, 2010, the dollar value of a basis point for this interest rate swap was approximately \$35, suggesting that a one-basis point rise (fall) of the yield curve would likely foster an increase (decrease) in the interest rate swaps value by approximately \$35. Because hedge accounting is applied, the contract serves to lock in a fixed rate of interest for the portion of the variable rate debt equal to the swap's notional size. The swap covers only 75% of our variable rate exposure.

Item 8. Financial Statements and Supplementary Data.

For the Financial Statements required by Item 8 see the Financial Statements included at the end of this Annual Report on Form 10-K starting on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

As a result of a review process undertaken by the Audit Committee of the Board of Directors (the "Audit Committee") of Capital Gold Corporation (the "Company"), on January 19, 2010, the Company notified Wolinetz, Lafazan & Company, P.C. ("Wolinetz") that it was dismissed as the Company's independent registered public accounting firm. The change in accountants did not result from any dissatisfaction with the quality of professional services rendered by Wolinetz.

The reports of Wolinetz on the Company's financial statements for the fiscal years ended July 31, 2009 and 2008 contained no adverse opinion or disclaimer of opinion, were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's fiscal years ended July 31, 2009 and 2008, and through January 19, 2010, there have been no disagreements with Wolinetz on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedure, which disagreements, if not resolved to the satisfaction of Wolinetz, would have caused Wolinetz to make reference thereto in its reports on the financial statements.

During the Company's fiscal years ended July 31, 2009 and 2008, and through January 19, 2010, there have been no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The Company has engaged BDO USA, LLP ("BDO", formerly known as BDO Seidman, LLP) as its new independent registered public accounting firm as of January 22, 2010. During the fiscal years ended July 31, 2009 and 2008, and through January 22, 2010, the Company did not consult with BDO regarding any of the matters described in Item 304(a)(2)(i) and (ii) of Regulation S-K. In deciding to select BDO, the Audit Committee reviewed auditor independence issues and existing commercial relationships with BDO and concluded that BDO has no commercial relationship with the Company that would impair its independence.

Item 9A. Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed not only to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods but also to ensure that information required to be disclosed is accumulated and communicated to the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. They have concluded that, as of that date, our disclosure controls and procedures were effective.

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

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) or 15d-15(f), under the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and affected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of our internal control over financial reporting as of July 31, 2010. In making this assessment, management used the criteria set forth in the framework established by the Committee of Sponsoring Organizations of the Treadway Commission Internal Control—Integrated Framework, (COSO). Based on this assessment, management has not identified any material weaknesses as of July 31, 2010. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management has concluded that we did maintain effective internal control over financial reporting as of July 31, 2010, based on the criteria set forth in "Internal Control—Integrated Framework" issued by the COSO.

The effectiveness of our internal controls over financial reporting as of July 31, 2010, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report which is included on page F-2 of the Financial Statements of this Annual Report on Form 10-K.

Item 9B. Other Information.

None.

## PART III

## Item 10. Executive Officers and Corporate Governance.

Information concerning Capital Gold's directors, Audit Committee, Compliance with Section 16(a) of the Exchange Act; Code of Ethics and any material changes to the procedures by which stockholders may recommend nominees to the Company's board of directors is contained in Capital Gold's definitive Proxy Statement, filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2011 Annual Meeting of Stockholders and is incorporated herein by reference. Information concerning Capital Gold's executive officers is set forth below.

Name	Age	Position
Colin Sutherland	39	President, Director
Christopher M. Chipman	37	Chief Financial Officer
J. Scott Hazlitt	58	Chief Operating Officer, Director

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.

COLIN SUTHERLAND, President and Director, has been with the company since August 2010 and is the former President and Chief Executive Officer of Nayarit Gold, Inc. Prior to joining Nayarit, Mr. Sutherland was a Director and Chief Financial Officer of Gammon Gold Inc. ("Gammon") from 2004 to 2007, where he was involved in Gammon's growth from an exploration stage company to a producing mining company with a market capitalization of over Cdn \$2 billion. Mr. Sutherland also was a Director and Chief Financial Officer of Mexgold Resources Inc. from 2004 to 2006. Mr. Sutherland has extensive experience in financing mineral exploration. Mr. Sutherland is a Chartered Accountant and a graduate of Saint Francis Xavier University in Antigonish, Nova Scotia.

CHRISTOPHER M. CHIPMAN, Chief Financial Officer. Mr. Chipman has been our Chief Financial Officer since March 1, 2006. Since November 2000, Mr. Chipman has been a managing member of Chipman & Chipman, LLC, a consulting firm that assists public companies with the preparation of periodic reports required to be filed with the Securities and Exchange Commission and compliance with Section 404 of the Sarbanes Oxley Act of 2002. The firm also provides outsourced financial resources to clients assisting in financial reporting, forecasting and accounting services. Mr. Chipman is a CPA and, from 1996 to 1998, he was a senior accountant with the accounting firm of Grant Thornton LLP. Mr. Chipman was the Controller of Frontline Solutions, Inc., a software company (March 2000 to November 2000); a Senior Financial Analyst for GlaxoSmithKline (1998-2000); and an Audit Examiner for Wachovia Corporation (1994-1996). He received a B.A. in Economics from Ursinus College in 1994 and is a Certified Public Accountant. He is a member of the American and Pennsylvania Institute of Certified Public Accountants.

J. SCOTT HAZLITT, Chief Operating Officer and Director, has been in the mining business since 1974. Since 2001, he has been focused on development of our El Chanate concessions and currently oversees all aspects of our operations. He previously worked as V.P. Mine Development and worked primarily in reserves, feasibility,



development and mine operations. Mr. Hazlitt was a field geologist for ARCO Syncrude Division at their CB oil Shale project in 1974 and 1975. He was a contract geologist for Pioneer Uranium and others from 1975 to 1977. He was a mine geologist for Cotter Corporation in 1978 and 1979, and was a mine geologist for ASARCO from 1979 to 1984. He served as Vice President of Exploration for Mallon Minerals from 1984 to 1988. From 1988 to 1992, Mr. Hazlitt was a project geologist and Mine Superintendent for the Lincoln development project. From 1992 to 1995, he was self-employed as a consulting mining geologist in California and Nevada. He was Mine Operations Chief Geologist for Getchell Gold from 1995 to 1999. His work experience has included precious metals, base metals, uranium, and oil shale. Mr. Hazlitt served as mine manager at our Hopemore Mine in Leadville, Colorado starting in November 1999. His highest educational degree is Master of Science from Colorado State University. He is a registered geologist in the state of California. He is a certified professional geologist (CPG) by the American Institute of Professional Geologists, and meets the requirements of a "qualified person" under Canadian National Instrument 4-3-101.

On September 17, 2009, the Company terminated Jeffrey W. Pritchard as Executive Vice President and Secretary of the Company without cause pursuant to a restructuring of its corporate investor relations functions. The termination was effective September 15, 2009. Mr. Pritchard resigned as a Director of the Company effective September 29, 2009.

On March 11, 2010, the Company entered into an agreement with Gifford A. Dieterle, the Chief Executive Officer (“CEO”) of the Company and Chairman of the Board, pursuant to which Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010.

On April 29, 2010, the Company entered into a severance agreement and general release with John Brownlie, the Company’s President and Chief Operating Officer (“COO”), pursuant to which Mr. Brownlie’s employment agreement terminated and he resigned as President and COO effective upon the consummation of the Business combination between the Company and Nayarit Gold on August 2, 2010.

#### Code of Ethics

We adopted a Code of Ethics that applies to our officers, directors and employees, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics is publicly available in the Management section on our Website at [www.capitalgoldcorp.com](http://www.capitalgoldcorp.com). If we make any substantive amendments to this code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our chief executive officer, principal financial officer or principal accounting officer, we will disclose the nature of such amendment or waiver on that Website or in a report on Form 8-K.

#### Item 11. Executive Compensation

Information concerning this item is contained in Capital Gold’s definitive Proxy Statement, to be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information concerning this item is contained in Capital Gold's definitive Proxy Statement, filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence (000's).

Information concerning this item is contained in Capital Gold's definitive Proxy Statement, filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 14. Principal Accountant Fees And Services.

Information concerning this item is contained in Capital Gold's definitive Proxy Statement, filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934 for the 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements and Schedules See index to financial statements on page F-1 of this Annual Report.

All other schedules called for under regulation S-X are not submitted because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto.

(b) Exhibits

Exhibits marked with a single asterisk (\*) are filed herewith.

Confidential treatment has been requested for exhibits marked with a triple asterisk (\*\*\*)

3.1 Certificate of Incorporation of the Company dated September 22, 2005 (Incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form SB-2 (File No. 333-129939) filed on November 23, 2005), as amended by the Certificate of Amendment dated February 26, 2007 (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended January 31, 2007 and filed on March 19, 2007), as further amended by the Certificate of Amendment dated January 24, 2008 (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 30, 2008).

3.2 Amended and Restated By-Laws of the Company dated September 1, 2009 (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 3, 2009).

- 4.1 Specimen stock certificate for shares of common stock, par value \$0.0001 per share (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form SB-2, filed on March 9, 2005).
- 4.2 Form of Warrant for Common Stock of the Company, issued to Standard Bank, PLC on July 8, 2009 (Incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 10-K for the year ended July 31, 2008 and filed on October 29, 2008).
- 10.1 Stock Purchase Option Agreement by and among AngloGold (Jerritt Canyon) Corp., AngloGold North America Inc., Leadville Mining and Milling Corporation and Leadville, effective December 15, 2000 (subsequently transferred to Royal Gold, Inc.) (Incorporated by reference to Exhibit 10.a to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended January 31, 2001 and filed on March 16, 2001).
- 10.2 Stock Sales and Security Agreement by and between Leadville Mining and Milling Corporation, Leadville and Inmobiliaria Ruba S.A. de C.V., dated March 30, 2002 (the "Minera Chanate Agreement") (Incorporated by reference to Exhibit 10.a to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended April 30, 2002 and filed on June 20, 2002).
- 10.3 English translation of the Minera Chanate Agreement (Incorporated by reference to Exhibit 10.b to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended April 30, 2002 and filed on June 20, 2002).
- 10.4 English summary of the El Charro Agreement between Antonio Vargas Coronado and Oro de Altar S. de R. L. de C.V., signed on May 25, 2005 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended April 30, 2005 and filed on June 20, 2005).
- 10.5 Mining Contract for the Contract Mining at El Chanate Gold Mine by and between Minera Santa Rita S. de R.L. de C.V. and Sinergia Obras Civiles y Mineras, S.A. de C.V. dated November 24, 2005 (the "Mining Agreement") (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended October 31 2005 and filed on December 15, 2005).
- 10.6 Letter of Amendment to the Mining Agreement, dated August 2, 2006 (Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-KSB for the year ended July 31, 2006 and filed on November 1, 2006).
- 10.7 2006 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended October 31, 2006 and filed on December 19, 2006).
- 10.8 Amendment 2009-1 to the 2006 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 24, 2009).
- 10.9 Amended and Restated Credit Agreement among Minera Santa Rita S. de R.L. de C.V. and Oro de Altar S. de R.L. de C.V. (as borrowers), Capital Gold Corporation (as guarantor), and Standard Bank PLC (as lender), dated as of July 17, 2008 (Incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended July 31, 2008 and filed on October 29, 2008).

- 10.10 Service Agreement between Caborca Industrial S.A. de C.V. and Minera Santa Rita, S. de R.L. de C.V., dated January 1, 2008 (Incorporated by reference to Exhibit 10.32 to the Company's Amended Annual Report on Form 10-K/A for the year ended July 31, 2008 and filed on February 13, 2009).
- 10.11 Mining Exploration Agreement between Roberto Preciado, Bertha Elena Martinez Espinoza and Oro de Altar S. de R.L. de C.V., dated April 4, 2008.(\*)
- 10.12 Amended and Restated Engagement Agreement between the Company and John Brownlie, effective as of January 1, 2009 (Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.13 Amended and Restated Engagement Agreement between the Company and Christopher Chipman, effective as of January 1, 2009 (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.14 Amended and Restated Engagement Agreement between the Company and Scott Hazlitt, effective as of January 1, 2009 (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.15 Executive Employment Agreement between the Company and Gifford Dieterle, effective as of January 1, 2009 (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.16 Executive Employment Agreement between the Company and Jeffrey Pritchard, effective as of January 1, 2009 (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.17 Indemnity Agreement between the Company and John Brownlie, effective November 17, 2008 (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.18 Indemnity Agreement between the Company and Scott Hazlitt, effective September 18, 2008 (Incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).
- 10.19 Indemnity Agreement between the Company and Christopher Chipman, effective September 18, 2008 (Incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009 and filed on March 12, 2009).

- 10.20 Severance Agreement and Release between the Company and Jeffrey Pritchard dated September 29, 2009.(\*)(\*\*\*)
- 10.21 Collateral Agreement between the Company and Metal Recovery Solutions, LLC, dated January 25, 2010 (Incorporated by reference to Exhibit 1.1 on the Company's Form 8-K filed with the SEC on February 1, 2010).
- 10.22 Business Combination Agreement, by and among the Company, Nayarit Gold Inc., John Brownlie, Colin Sutherland and Bradley Langille, dated February 10, 2010 (Incorporated by reference to Exhibit 2.1 on the Company's Form 8-K filed with the SEC on February 11, 2010).
- 10.23 First Amendment to Amended and Restated Credit Agreement, by and among the Company, Standard Bank PLC, Minera Santa Rita S. de R.L. de C.V., and Oro de Altar S. de R.L. de C.V., dated June 30, 2010 (Incorporated by reference to Exhibit 10.1 on the Company's Form 8-K filed with the SEC on July 7, 2010).
- 10.24 Extension between the Company and Nayarit Gold dated July 6, 2010 (Incorporated by reference to Exhibit 10.2 on the Company's Form 8-K filed with the SEC on July 7, 2010).
- 10.25 Severance Agreement and Release between the Company and John Brownlie dated April 29, 2010 (Incorporated by reference to Exhibit 10.3 on the Company's Form 8-K with the SEC on July 7, 2010).
- 10.26 Business Combination Agreement between the Company and Nayarit Gold Inc. dated February 10, 2010 (Incorporated by reference to Exhibit 2.1 on the Company's Form 8-K filed with the SEC on August 5, 2010).
- 10.27 Amendment No. 1 to Business Combination Agreement between Capital Gold Corporation and Nayarit Gold Inc., dated April 29, 2010 (Incorporated by reference to Exhibit 2.2 on the Company's Form 8-K filed with the SEC on August 5, 2010).
- 10.28 Extension Agreement dated July 6, 2010 (Incorporated by reference to Exhibit 2.3 on the Company's Form 8-K filed with the SEC on August 5, 2010).
- 10.29 Executive Employment Agreement between the Company and Colin Sutherland (Incorporated by reference to Exhibit 10.1 on the Company's Form 8-K filed with the SEC on August 5, 2010).
- 10.30 Form of Lock-up Agreement between the Company and certain stockholders of the Company (Incorporated by reference to Exhibit 10.2 on the Company's Form 8-K filed with the SEC on August 5, 2010).

10.31 Agreement and Plan of Merger by and among the Company, Gammon Gold Inc., and Capital Gold AcquireCo, Inc. dated October 1, 2010 (Incorporated by reference to Exhibit 2.1 on the Company's Form 8-K filed with the SEC on October 7, 2010).

21 Subsidiaries of Capital Gold Corporation

23.1 Consent of BDO USA, LLP, independent registered public accountants.\*

23.2 Consent of Wolinetz, Lafazan & Company, P.C., independent registered public accountants.\*

23.3 Consent of SRK Consulting (U.S), Inc.\*

31.1 Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 from the Company's Chief Executive Officer.\*

31.2 Certification pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 from the Company's Chief Financial Officer.\*

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer.\*

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.\*

Statements contained in this Annual Report on Form 10-K as to the contents of any agreement or other document referred to are not complete, and where such agreement or other document is an exhibit to this Annual Report on Form 10-K or is included in any forms indicated above, each such statement is deemed to be qualified and amplified in all respects by such provisions.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL GOLD CORPORATION

Dated: October 14, 2010

By: /s/ Colin Sutherland  
Colin Sutherland, President and Director  
(Principal Executive Officer)



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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Colin Sutherland  
Colin Sutherland, President and Director  
(Principal Executive Officer) October 14, 2010

/s/ Christopher M. Chipman  
Christopher M. Chipman, Chief Financial Officer and Corporate Secretary  
(Principal Financial Officer) October 14, 2010

/s/ Scott Hazlitt  
Scott Hazlitt, Chief Operating Officer and Director October 14, 2010

/s/ Steve Cooper  
Steve Cooper, Chairman of the Board, Director, October 14, 2010

/s/ John W. Cutler  
John W. Cutler, Director October 14, 2010

/s/ Gary Huber  
Gary Huber, Director October 14, 2010

SUPPLEMENTAL INFORMATION

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act.

NOT APPLICABLE.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Capital Gold Corporation and Subsidiaries as of July 31, 2010 and the related consolidated statement of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital Gold Corporation and Subsidiaries at July 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital Gold Corporation and Subsidiaries' internal control over financial reporting as of July 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated October 14, 2010 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP  
New York, New York

October 14, 2010

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
Capital Gold Corporation and Subsidiaries  
New York, New York

We have audited Capital Gold Corporation and Subsidiaries internal control over financial reporting as of July 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Capital Gold Corporation’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Capital Gold Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Capital Gold Corporation and Subsidiaries as of July 31, 2010, and the related consolidated statement of operations, stockholders’ equity, and cash flows for the year then ended and our report dated October 14, 2010 expressed an unqualified opinion thereon.

/s/BDO USA, LLP

New York, New York

October 14, 2010

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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 ("the Company") as of July 31, 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended July 31, 2009. We also have audited Capital Gold Corporation and Subsidiaries' internal control over financial reporting as of July 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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, 2009, and the consolidated results of their operations and their cash flows for each of the years in the two-year period ended July 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Capital Gold Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As discussed in Note 2 to the Consolidated Financial Statements, the consolidated balance sheet as of July 31, 2009 and consolidated statement of stockholders' equity for the years ended July 31, 2009 and 2008 have been restated.

/s/ WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York

October 12, 2009 (Except for Note 2 as to which the date is October 14, 2010)

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

## ASSETS

	July 31, 2010	July 31, 2009 (Restated)
Current Assets:		
Cash and Cash Equivalents (Note 3)	\$ 12,125	\$ 6,448
Accounts Receivable (Note 3)	-	2,027
Stockpiles and Ore on Leach Pads (Note 6)	32,896	20,024
Material and Supply Inventories (Note 5)	1,953	1,381
Marketable Securities (Note 4)	30	35
Prepaid Expenses	431	277
Other Current Assets (Note 7)	1,471	1,101
Total Current Assets	48,906	31,293
Mining Concessions (Note 10)	52	51
Property & Equipment – net (Note 8)	21,390	18,492
Intangible Assets – net (Note 9)	730	318
Other Assets:		
Deferred Financing Costs (Note 16)	1,351	2,232
Deferred Tax Asset (Note 22)	-	32
Security Deposits	66	66
Total Other Assets	1,417	2,330
Total Assets	\$ 72,495	\$ 52,484

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts Payable	\$ 907	\$ 988
Accrued Expenses (Note 21)	5,040	1,633
Derivative Contracts (Note 20)	40	193
Deferred Tax Liability (Note 22)	7,462	4,233
Current Portion of Long-term Debt (Note 16)	3,600	3,600
Total Current Liabilities	17,049	10,647
Reclamation and Remediation Liabilities (Note 12)	2,373	1,594
Other Liabilities	373	78
Non-Current Deferred Tax Liability (Note 22)	971	-
Long-Term Debt (Note 16)	800	4,400
Total Long-term Liabilities	4,517	6,072
Commitments and Contingencies (Notes 1 and 23)	-	-
Stockholders' Equity:		
Common Stock, Par Value \$.0001 Per Share; Authorized 75,000,000 shares; Issued and Outstanding 48,768,665 and 48,463,406 shares, respectively	5	5
Additional Paid-In Capital	65,391	64,071
Accumulated Deficit	(10,095)	(22,089)



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Deferred Compensation	(80)	(319)
Accumulated Other Comprehensive Income (Note 13)	(4,292)	(5,903)
Total Stockholders' Equity	50,929	35,765
Total Liabilities and Stockholders' Equity	\$ 72,495	\$ 52,484

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

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CAPITAL GOLD CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS  
(in thousands, except for share and per share amounts)

	For The Year Ended		
	July 31,		
	2010	2009	2008
<b>Revenues</b>			
Sales – Gold, net	\$ 60,645	\$ 42,757	\$ 33,104
<b>Costs and Expenses:</b>			
Costs Applicable to Sales	22,017	13,883	10,690
Depreciation and Amortization	2,939	2,041	2,350
General and Administrative	8,573	5,464	5,586
Exploration	1,616	1,600	938
Total Costs and Expenses	35,145	22,988	19,564
Income from Operations	25,500	19,769	13,540
<b>Other Income (Expense):</b>			
Interest Income	13	43	77
Interest Expense	(1,365)	(1,575)	(2,295)
Other Income (Expense)	(129)	(313)	(95)
Loss on change in fair value of derivative	-	(1,975)	(1,356)
Total Other Income (Expense)	(1,481)	(3,820)	(3,669)
Income before Income Taxes	24,019	15,949	9,871
Income Tax Expense (Note 21)	(12,025)	(5,542)	(3,507)
Net Income	\$ 11,994	\$ 10,407	\$ 6,364
<b>Income Per Common Share</b>			
Basic	\$ 0.25	\$ 0.22	\$ 0.15
Diluted	\$ 0.25	\$ 0.21	\$ 0.13
Basic Weighted Average Common Shares Outstanding	48,512,828	48,315,116	43,759,999
Diluted Weighted Average Common Shares Outstanding	48,703,035	49,882,770	48,867,282

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

CAPITAL GOLD CORPORATION  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except for share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional paid-in- Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2007 (Restated)	42,042,804	\$ 4	\$ 54,132	\$ (38,860)	\$ 121	\$ (52)	\$ 15,345
Options and warrants issued for services	-	-	433	-	-	194	627
Private placement, net	5,748,545	1	7,472				7,473
Common stock issued for services provided	402,500	-	1,051			(691)	360
Net income for the year ended July 31, 2008	-	-	-	6,364	-	-	6,364
Change in fair value on interest rate swaps	-	-	-	-	(141)	-	(141)
Unrealized loss on marketable securities	-	-	-	-	(25)	-	(25)
Equity adjustment from foreign currency translation	-	-	-	-	2,504	-	2,504
Total comprehensive income	-	-	-	-	-	-	8,702
Balance at July 31, 2008 (Restated)	48,193,849	\$ 5	\$ 63,088	\$ (32,496)	\$ 2,459	\$ (549)	\$ 32,507

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

CAPITAL GOLD CORPORATION  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except for share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional paid-in- capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2008	48,193,849	\$ 5	\$ 63,088	\$ (32,496)	\$ 2,459	\$ (549)	\$ 32,507
Equity based compensation	-	-	551	-	-	230	781
Common stock issued upon the exercising of options and warrants	213,932	-	319	-	-	-	319
Issuance of restricted common stock	55,625	-	113	-	-	-	113
Net income for the year ended July 31, 2009	-	-	-	10,407	-	-	10,407
Change in fair value on interest rate swaps	-	-	-	-	23	-	23
Unrealized loss on marketable securities	-	-	-	-	(30)	-	(30)
Equity adjustment from foreign currency translation	-	-	-	-	(8,355)	-	(8,355)
Total comprehensive income	-	-	-	-	-	-	2,045
Balance at July 31, 2009 (Restated)	48,463,406	\$ 5	\$ 64,071	\$ (22,089)	\$ (5,903)	\$ (319)	\$ 35,765

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

CAPITAL GOLD CORPORATION  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(in thousands, except for share and per share amounts)

	Common Stock Shares	Common Stock Amount	Additional paid-in- capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2009	48,463,406	\$ 5	\$64,071	\$(22,089)	\$(5,903)	\$(319)	\$ 35,765
Equity based compensation, net of forfeitures	(63,333)	-	755	-	-	239	994
Common stock issued upon the exercising of options and warrants	368,592	-	565	-	-	-	565
Net income for the year ended July 31, 2010	-	-	-	11,994	-	-	11,994
Change in fair value on interest rate swaps	-	-	-	-	153	-	153
Unrealized loss on marketable securities	-	-	-	-	(5)	-	(5)
Equity adjustment from foreign currency translation	-	-	-	-	1,463	-	1,463
Total comprehensive income	-	-	-	-	-	-	13,605
Balance at July 31, 2010	48,768,665	\$ 5	\$65,391	\$(10,095)	\$(4,292)	\$(80)	\$50,929

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

CAPITAL  
GOLD  
CORPORATION

CONSOLIDATED  
STATEMENT OF  
CASH FLOWS

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

	2010	For The Year Ended July 31, 2009	2008
<b>Cash Flow From Operating Activities:</b>			
Net Income	\$ 11,994	\$ 10,407	\$ 6,364
<b>Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:</b>			
Depreciation and Amortization	2,939	2,041	2,300
Amortization of Deferred Financing Costs	992	978	1,088
Accretion of Reclamation and Remediation	145	156	124
Loss on change in fair value of derivative	-	1,975	1,356
Equity Based Compensation	994	894	987
<b>Changes in Operating Assets and Liabilities:</b>			
Decrease (Increase) in Accounts Receivable	2,027	(550)	(1,477)
Increase in Prepaid Expenses	(154)	(58)	(146)
Increase in Inventory	(12,323)	(6,786)	(8,913)
Decrease (Increase) in Other Current Assets	(370)	(570)	2,055
Decrease (Increase) in Other Long-term Assets	32	538	(573)
Decrease (Increase) in Mining Reclamation Bond	-	82	(46)
Increase (Decrease) in Accounts Payable	(81)	200	171
Decrease in Derivative Liability	-	(2,689)	(1,166)
Increase (Decrease) in Reclamation and Remediation	634	(228)	-
Increase in Other Long-term Liabilities	295	16	62
Increase in Deferred Tax Liability	4,200	2,170	2,063
Increase (Decrease) in Accrued Expenses	3,407	(1,040)	2,069
<b>Net Cash Provided By Operating Activities</b>	<b>14,731</b>	<b>7,536</b>	<b>6,318</b>
<b>Cash Flow From Investing Activities:</b>			
Decrease in Other Investments	-	-	28
<b>Purchase of Mining, Milling and Other Property and Equipment</b>	<b>(6,048)</b>	<b>(4,994)</b>	<b>(5,417)</b>
Purchase of Intangibles	(467)	(180)	(90)
<b>Net Cash Used in Investing Activities</b>	<b>(6,515)</b>	<b>(5,174)</b>	<b>(5,479)</b>

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



CAPITAL GOLD CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED  
(in thousands, except for share and per share amounts)

	2010	For The Year Ended July 31, 2009	2008
<b>Cash Flow From Financing Activities:</b>			
Proceeds from Affiliate, net	\$ -	\$ 6	\$ 7
Repayments on Credit Facility	(3,600)	(4,500)	-
Proceeds From Issuance of Common Stock	565	319	7,474
Deferred Finance Costs	(113)	-	(175)
Net Cash (Used in) Provided By Financing Activities	(3,148)	(4,175)	7,306
Effect of Exchange Rate Changes	609	(2,731)	622
Increase (Decrease) In Cash and Cash Equivalents	5,677	(4,544)	8,767
Cash and Cash Equivalents - Beginning	6,448	10,992	2,225
Cash and Cash Equivalents – Ending	\$ 12,125	\$ 6,448	\$ 10,992
<b>Supplemental Cash Flow Information:</b>			
Cash Paid For Interest	\$ 396	\$ 647	\$ 1,235
Cash Paid For Income Taxes	\$ 6,669	\$ 4,213	\$ 1,373
<b>Non-Cash Financing Activities:</b>			
Issuance of common stock and warrants as payment of financing costs	\$ -	\$ -	\$ 103
Change in Fair Value of Interest Rate Swaps	\$ 153	\$ 23	\$ 141
Change in Fair Value of Asset Retirement Obligation	\$ 634	\$ 222	\$ 293

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



CAPITAL GOLD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2010

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

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold", "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. In November 2005, the Company reincorporated in Delaware. Capital Gold Corporation is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate project, as well as the development of our Orion Project in the State of Nayarit Mexico. All of the Company's mining activities are being performed in Mexico.

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

Pursuant to the terms of the agreement, on December 15, 2001, the Company made a \$50 payment to AngloGold. AngloGold is entitled to receive the remainder of the purchase price by way of an ongoing percentage of net smelter returns of between 2% and 4% plus 10% net profits interest (until the total net profits interest payment received by AngloGold equals \$1,000). 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.

During the first part of calendar 2008, Royal Gold, Inc. acquired from Anglo Gold the right to receive both of the net smelter returns. As of July 31, 2010, we have incurred approximately \$5,567 with regard to the net smelter return. In addition, in March 2009, we paid the total \$1,000 net profit interest to Royal Gold. As of July 31, 2010, we have approximately \$11,451 remaining to be incurred on the net smelter return.

Under the terms of the agreement, the Company had granted AngloGold the right to designate one of its wholly-owned Mexican subsidiaries to receive a one time option (the "Option") to purchase 51% of Minera Chanate (or such entity that owns the Minera Chanate concessions at the time of option exercise) (the "Back-In Right"). That Option was 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 two million 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.

In January 2008, pursuant to the terms of the agreement, the Company made a good faith determination and notified AngloGold that the drill indicated resources at the El Chanate gold mine exceeded the target number of ounces of contained gold. The term "drill indicated resources" is defined in the agreement. A drill indicated resource number does not rise to the level of, and should not be considered proven and probable reserves as those terms are defined under SEC guidelines. AngloGold had 180 days from the date of notification, or July 28, 2008, to determine whether or not it would choose to exercise the Option for the Back-In Right. On July 1, 2008, AngloGold notified the Company that it would not be exercising the Back-In Right.



## NOTE 2 – PRIOR YEAR RESTATEMENT

In connection with completing the consolidated financial statements as of July 31, 2010, the Company determined that it had previously incorrectly translated the carrying value of its property and equipment as part of its consolidating procedures. This error resulted in both an overstatement of property and equipment and accumulated other comprehensive income. The effect of correcting the Company's prior year financial statements is presented as follows:

Financial Statement Caption	As	
	Previously Reported	As Corrected
Property and equipment – 7/31/09	\$ 22,417	\$ 18,492
Accumulated Other Comprehensive Income (Loss) – 7/31/09	\$ (1,978)	\$ (5,903)
Accumulated Other Comprehensive Income (Loss) – 7/31/08	\$ 760	\$ 2,459
Accumulated Other Comprehensive Income (Loss) – 7/31/07	\$ 304	\$ 121
Foreign currency translation adjustment – year ended 7/31/09	\$ (2,731)	\$ (8,355)
Foreign currency translation adjustment – year ended 7/31/08	\$ 622	\$ 2,504

This restatement had no impact on the Company's previously reported net income or cash flows from operations; the Company has determined that the impact of this restatement is not material to the previously issued annual and interim unaudited consolidated financial statements using the guidance of SEC Staff Accounting Bulletin ("SAB") No. 99 and SAB 108.

## NOTE 3 - Summary of Significant Accounting Policies

## Principles of Consolidation

The consolidated financial statements include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries, Leadville Mining and Milling Holding Corporation, Minera Santa Rita, S.A de R.L. de C.V. ("MSR") and Oro de Altar S. de R. L. de C.V. ("Oro") as well as the accounts within Caborca Industrial S.A. de C.V. ("Caborca Industrial"), a Mexican corporation 100% owned by a former officer and director of the Company for mining support services. Ownership was relinquished upon their recent resignations, and as of July 31, 2010, the Company was in the process of transitioning ownership. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. This entity is considered a variable interest entity in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") guidance for consolidation accounting. All significant intercompany accounts and transactions are eliminated in consolidation. Certain items in these financial statements have been reclassified to conform to the current period presentation.

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

## Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents include money market accounts.



#### Accounts Receivable

Accounts receivable represents amounts due but not yet received from customers upon sales of precious metals.

#### Marketable Securities

The Company accounts for its investments in marketable securities in accordance with ASC guidance for Investments—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 using the closing quoted market price on the exchange the securities are traded as of the balance sheet date. 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 as a separate component of stockholders' equity.

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

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

##### Ore on Leach Pads

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

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

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

##### In-process Inventory

In-process inventories represent materials that are currently in the process of being converted to a saleable product. Conversion processes vary depending on the nature of the ore and the specific processing facility, but include leach in-circuit, flotation and column cells and carbon in-pulp inventories. In-process material are measured based on assays of the material fed into the process and the projected recoveries of the respective plants. In-process inventories are

valued at the average cost of the material fed into the process attributable to the source material coming from the mines and/or leach pads plus the in-process conversion costs, including applicable depreciation relating to the process facilities incurred to that point in the process.

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### Precious Metals Inventory

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

### Materials and Supplies

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

### Property, Plant and Mine Development

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

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

### Impairment of Long-Lived Assets

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

#### Reclamation and Remediation Costs (“Asset Retirement Obligations”)

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

#### Deferred Financing Costs

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

#### Intangible Assets

Purchased intangible assets consisting of rights of way, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is the Company’s policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with ASC guidance for intangibles. There was no impairment at July 31, 2010.

#### Fair Value of Financial Instruments

The carrying value of our financial instruments, including cash and cash equivalents, marketable securities, loans receivable, accrued expenses and accounts payable approximated fair value because of the short maturity of these instruments. The carrying amount of the Company’s accounts receivable balance approximates fair value. The carrying value of the Company’s long-term debt approximates fair value.

#### Revenue Recognition

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



Revenues from by-product sales, which consists of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to \$1,400, \$1,076 and \$707 for the fiscal years ended July 31, 2010, 2009 and 2008, respectively.

#### Foreign Currency Translation

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

#### Comprehensive Income (Loss)

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

#### Income Taxes

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

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

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

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

#### Equity Based Compensation

In connection with offers of employment to the Company's executives as well as in consideration for agreements with certain consultants, the Company issues options and warrants to acquire its common stock. Employee and

non-employee awards are made at the discretion of the Board of Directors.

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Such options and warrants may be exercisable at varying exercise prices currently ranging from \$1.40 to \$3.73 per share of common stock. Certain of these grants are exercisable immediately upon grant while others vest. Certain grants have vested or are vesting over a period of between three and five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

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

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

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company's stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, and expected life. The estimate of the number of forfeitures considers historical employee turnover rates and expectations about the future. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the fiscal years ended July 31, 2010, 2009 and 2008 were \$2.16, \$1.16 and \$1.36, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	2010	Year ended July 31, 2009	2008
Expected volatility	71.25% – 79.72%	69.98 – 79.72%	47.60 – 60.88%
Risk-free interest rate	1.76 – 2.48%	0.86 – 1.56%	4.61%
Expected dividend yield	-	-	-
Expected life	5 years	2 - 5 years	5.5 years
Forfeiture rate	-	-	-

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

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2007	625,000	\$ 1.36	1.20	\$ 255
Options granted*	625,000	2.52	-	-
Options exercised	(362,500)	1.28	-	-
Options expired	-	-	-	-
Outstanding at July 31, 2008	887,500	\$ 2.20	4.00	\$ 334
Options granted*	250,000	1.96	-	-

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Options exercised	(176,432)	1.48	-	-
Options expired	(86,068)	1.40	-	-
Outstanding at July 31, 2009	875,000	\$ 2.36	5.18	\$ 70
Options granted*	500,000	\$ 3.60	-	-
Options exercised	(128,638)	2.39	-	-
Options expired	(1,015,112)	2.93	-	-
Options outstanding at July 31, 2010	231,250	\$ 2.52	4.37	\$ 280
Options exercisable at July 31, 2010	138,750	\$ 2.52	4.37	\$ 168

\* Issuances under 2006 Equity Incentive Plan.

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Unvested stock option balances for employees at July 31, 2010, 2009 and 2008 are as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2007	37,500	\$ 1.28	1.67	\$ 17
Options granted	625,000	2.52	-	-
Options vested	(225,000)	2.32	-	-
Unvested Options				
Outstanding at July 31, 2008	437,500	\$ 2.52	4.49	\$ 8
Options granted	250,000	1.96	-	-
Options vested	(250,000)	2.24	-	-
Unvested Options outstanding at July 31, 2009	437,500	\$ 2.36	5.18	\$ 35
Options granted	500,000	3.60	-	-
Options vested	(237,500)	3.23	-	-
Options expired	(607,500)	3.02	-	-
Unvested Options outstanding at July 31, 2010	92,500	\$ 2.52	4.37	\$ 112

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

	Number of options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2007	5,633,886	\$ 1.32	1.48	\$ 2,578
Options granted*	428,750	2.64		
Options exercised	(5,388,886)	1.32	-	-
Options expired	(170,000)	1.20	-	-
Warrants and options outstanding at July 31, 2008	503,750	\$ 2.48	3.54	\$ 54
Options granted	350,000	2.00	-	-
Options exercised	(37,500)	1.56	-	-
Options expired	(37,500)	1.56	-	-
Warrants and options outstanding at July 31, 2009	778,750	\$ 2.36	3.36	\$ 73
Options granted	237,500	3.63	-	-
Warrants and options exercised	(239,954)	2.83	-	-
Options expired	(388,796)	2.16	-	-
Options outstanding at July 31, 2010	387,500	\$ 3.02	3.97	\$ 250
Options exercisable at July 31, 2010	220,833	\$ 2.88	1.24	\$ 187

\* 278,750 issued under 2006 Equity Incentive Plan.

Unvested stock option balances for non-employees at July 31, 2010, 2009 and 2008 are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2007	-	-	-	-
Options granted	162,500	2.52	-	-
Options vested	(48,750)	2.52	-	-
Outstanding at July 31, 2008	113,750	\$ 2.52	4.49	\$ 3
Options granted	318,750	1.96	-	-
Options vested	(191,875)	2.04	-	-
Outstanding at July 31, 2009	240,625	\$ 2.16	4.88	\$ 70
Options granted	237,500	3.63	-	-
Options vested	(154,166)	3.18	-	-
Options expired	(157,292)	2.25	-	-
Unvested options outstanding at July 31, 2010	166,667	\$ 3.21	4.32	\$ 77



The impact on the Company's results of operations of recording equity based compensation for the fiscal years ended July 31, 2010, 2009 and 2008, for employees and non-employees was approximately \$994, \$894 and \$987 and reduced earnings per share by \$0.02, \$0.02 and \$0.02 per basic and diluted share, respectively. The Company has not recognized any tax benefit or expense for the fiscal years ended July 31, 2010, 2009 and 2008, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 22).

As of July 31, 2010 and 2009, there was approximately \$217 and \$792, respectively, of unrecognized equity based compensation cost related to options granted to executives and employees which have not yet vested.

#### Reclassifications

Certain items in these financial statements have been reclassified to conform to the current period presentation. These reclassifications had no impact on the Company's results of operations, stockholders' equity or cash flows.

#### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and marketable securities. The Company maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation limit of \$250,000 at times during the year.

#### Accounting for Derivatives and Hedging Activities

The Company entered into two identically structured derivative contracts with Standard Bank in March 2006. Each derivative consisted of a series of forward sales of gold and a purchase gold cap. The Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to a purchase gold cap on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. Although these contracts were not designated as hedging derivatives, they served an economic purpose of protecting the company from the effects of a decline in gold prices. Because they were not designated as hedges, however, special hedge accounting does not apply. Derivative results were simply marked to market through earnings, with these effects recorded in other income or other expense, as appropriate in accordance with ASC guidance for derivatives and hedging.

On February 24, 2009, the Company settled with Standard Bank, Plc., the remaining 58,233 ounces of gold under the original Gold Price Protection arrangements entered into in March 2006. The purpose of these arrangements at the time was to protect the Company in the event the gold price dropped below \$500 per ounce. Total remuneration to unwind these arrangements was approximately \$1,906. In conjunction with the settlement of the gold price protection agreement, the Company incurred an Other Expense of approximately \$1,391 during the fiscal quarter ended April 30, 2009.



The Company entered into interest rate swap agreements in accordance with the terms of its credit facility, which requires that the Company hedge at least 50 percent of the Company's outstanding debt under this facility. The agreements entered into cover \$9,375 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375, but over different time horizons. The first covered the six months commencing October 11, 2006 and terminated on March 31, 2007 and the second covering the period from March 30, 2007 with a termination date of December 31, 2010. The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidentally with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness.

#### 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.

#### Recently Issued Accounting Pronouncements

##### The Accounting Standards Codification

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

#### Share-Based Payment Transactions

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

### Fair Value Measurements

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

### Variable Interest Entities

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

### Equity-linked Financial Instruments

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

### Accounting for the Useful Life of Intangibles

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

## NOTE 4 - Marketable Securities

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

	(in thousands)	
	July 31, 2010	July 31, 2009
Marketable equity securities, at cost	\$ 50	\$ 50
Marketable equity securities, at fair value (See Notes 13)	\$ 30	\$ 35

## NOTE 5 – Material and Supplies Inventories

	(in thousands)	
	July 31, 2010	July 31, 2009
Materials, supplies and other	\$ 1,953	\$ 1,381
Total	\$ 1,953	\$ 1,381

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

	(in thousands)	
	July 31, 2010	July 31, 2009
Ore on leach pads	\$ 32,896	\$ 20,024
Total	\$ 32,896	\$ 20,024

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

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

## NOTE 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands)	
	July 31, 2010	July 31, 2009
Value added tax to be refunded	\$ 891	\$ 1,032
Note receivable – Nayarit	350	-
MRS receivable (Note 10)	210	-
Loans receivable – affiliate	15	33
Deposit	5	26
Other	-	10
<b>Total Other Current Assets</b>	<b>\$ 1,471</b>	<b>\$ 1,101</b>

## NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands)	
	July 31, 2010	July 31, 2009
Process equipment and facilities	\$ 29,038	\$ 22,304
Mining equipment	2,180	1,853
Mineral properties	152	166
Construction in progress	165	71
Computer and office equipment	366	347
Improvements	13	13
Furniture	43	41
Total	31,957	24,795
Less: accumulated depreciation	(10,567)	(6,303)
<b>Property and equipment, net</b>	<b>\$ 21,390</b>	<b>\$ 18,492</b>

In May 2010, the Company initiated the planning and permitting on the construction of an additional leach pad. The total capacity of this additional leach pad will be approximately 8.5 million tonnes and cost approximately \$7,500. Construction commenced in July 2010.

Depreciation expense for the fiscal years ended July 31, 2010, 2009 and 2008 was approximately \$2,884, \$1,998 and \$1,820, respectively.

## NOTE 9 - Intangible Assets

Intangible assets consist of the following:

	(in thousands)	
	July 31, 2010	July 31, 2009
Water Rights	\$ 510	\$ 241

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Reforestation fee	271	73
Mobilization Payment to Mineral Contractor	70	70
Investment in Right of Way	18	18
Total	869	402
Accumulated Amortization	(139)	(84)
Intangible assets, net	\$ 730	\$ 318

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Purchased intangible assets consisting of rights of way, water rights, and easements, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the UOP method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with ASC guidance for goodwill and other intangibles. There was no impairment at July 31, 2010.

The Right of Way, Water Rights, Reforestation Fee and the Mobilization Payment were recorded at cost and are being amortized using the units of production method. Amortization expense for the year ended July 31, 2010, 2009 and 2008 was approximately \$55, \$43 and \$530, respectively.

Amortization of intangibles anticipated for each of the next five years is as follows for the fiscal year ended July 31, 2011 - \$63, 2012 - \$56, 2013 - \$54, 2014 - \$61, 20105 - \$55.

#### NOTE 10 - Mining Concessions

Mining concessions consists of the following:

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

The El Chanate concessions are carried at historical cost and are being amortized using the units of production method. They were acquired in connection with the purchase of the stock of Minera Chanate (see Note 1). Amortization expense for the years ended July 31, 2010, 2009 and 2008 was approximately \$3, \$8 and \$8, respectively.

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

#### NOTE 11 – Note Receivable

On January 25, 2010, the Company entered into a Collateral Agreement (the "Collateral Agreement") with Metal Recovery Solutions, LLC ("MRS"), a privately-held Nevada company, in which it was proposed that the Company would acquire twenty-five percent of all of the issued and outstanding equity of MRS for an aggregate investment of \$2,000.

The Collateral Agreement required the Company to promptly pay \$500 to MRS, with the Company's intention to invest the remaining \$1,500 being set forth in a letter of intent (the "LOI") entered into on January 25, 2010, the material terms of which are non-binding. The Company's obligation to invest the remaining \$1,500 would only arise if the Company and MRS signed a definitive Investment Agreement (the "Investment Agreement") pursuant to which it is contemplated that such remaining funds will be invested in stages, according to milestones that MRS was expected to reach in the deployment of a gold recovery technology pilot program at the Company's El Chanate mine.



The consummation of the Investment Agreement was contingent upon MRS meeting certain requirements, including requirements with respect to its budget, business plan, securing the employment of its founders and securing rights to certain technology. In the event that the Investment Agreement would not be consummated, the Collateral Agreement provides that the \$500 payment to MRS be repaid with interest (the “MRS Repayment”). Such repayment was secured by cash flows from MRS’s Consulting / Services Agreement with a third-party gold mining company, the expected value of which was \$1,275 to MRS. The Investment Agreement was also subject to final approval by the Board of Directors of the Company and the managers of MRS.

On March 25, 2010, the Company elected not to pursue the implementation of the MRS technology at its El Chanate mine. Accordingly, the Company demanded repayment of the amounts paid to MRS in accordance with the letter agreement between MRS and the Company. On May 12, 2010, the parties agreed to reduce the MRS Repayment to \$450 and the Company is currently receiving repayment based on the original Collateral Agreement. The Company recorded the remaining receivable amount of \$210 as of July 31, 2010 as an Other Current Asset (See Note 7).

#### NOTE 12 - Reclamations and Remediation Liabilities (“Asset Retirement Obligations”)

The Company includes environmental and reclamation costs on an ongoing basis, in our internal revenue and cost projections. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect the Company’s planned operations. As of July 31, 2010, we estimated the reclamation costs for the El Chanate site to be approximately \$4,094. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of July 31, 2010. As of July 31, 2010 and 2009, approximately \$2,373 and \$1,594, respectively, was accrued for reclamation obligations relating to mineral properties in accordance with ASC guidance for asset retirement and environmental obligations.

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the years ended July 31, 2010 and 2009:

	(in thousands)
Balance as of July 31, 2008	\$ 1,666
Additions, changes in estimates and other	(184)
Liabilities settled	(44)
Accretion expense	156
Balance as of July 31, 2009	\$ 1,594
Additions, changes in estimates and other	634
Accretion expense	145
Balance as of July 31, 2010	\$ 2,373



## NOTE 13 – Accumulated Other Comprehensive Income

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

	Foreign currency items	Unrealized gain (loss) on securities	Change in fair value on interest rate swaps	Accumulated other comprehensive income
Balance as of July 31, 2007	\$ (124)	\$ 40	\$ 205	\$ 121
Income (loss)	2,504	(25)	(141)	2,338
Balance as of July 31, 2008	2,380	15	64	2,459
Income (loss)	(8,355)	(30)	23	(8,362)
Balance as of July 31, 2009	\$ (5,975)	\$ (15)	\$ 87	\$ (5,903)
Income (loss)	1,463	(5)	153	1,611
Balance as of July 31, 2010	\$ (4,512)	\$ (20)	\$ 240	\$ (4,292)

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the years ended July 31, 2010, 2009 and 2008.

## NOTE 14 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately \$7, \$6 and \$6 in expense reimbursements including office rent from this entity for the years ended July 31, 2010, 2009 and 2008, respectively.

The Company utilizes a Mexican Corporation, Caborca Industrial, for mining services. Caborca Industrial was 100% owned by the Company's former Chief Executive Officer and another former officer of the Company. Ownership was relinquished upon their recent resignations, and as of July 31, 2010, the Company was in the process of transitioning ownership. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately \$5,807, \$4,767 and \$3,775 for the year ended July 31, 2010, 2009 and 2008, respectively.

The Company incurred approximately \$7, \$15 and \$7 for the years ended July 31, 2010, 2009 and 2008, respectively, for services provided related to marketing materials. The firm providing the services is owned and operated by relatives of the Company's former President and COO, John Brownlie.

During the years ended July 31, 2010, 2009 and 2008, the Company paid Jack Everett, its former Vice President Exploration and Director, consulting fees of \$0, \$0 and \$100, respectively. During the years ended July 31, 2010, 2009 and 2008, the Company paid Robert Roningen, a former director, legal and consulting fees of \$28, \$8 and \$35, respectively.

## NOTE 15 - 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 services provided or property received.

The Company issued 287,500 shares of common stock and 3,150,000 common stock purchase warrants to Standard Bank as part of a commitment fee to entering into the credit facility on August 15, 2006, with its wholly-owned subsidiaries MSR and Oro. The Company recorded the issuance of the 287,500 shares of common stock and 3,150,000 warrants as deferred financing costs of approximately \$351 and \$3,314, respectively, on the Company's balance sheet. The issuance of 287,500 shares was recorded at the fair market value of the Company's common stock at the closing date or \$1.22 per share. The warrants were valued at approximately \$3,314 using the Black-Scholes option pricing model and were reflected as deferred financing costs on the Company's balance sheet.

On July 17, 2008, the Company closed in escrow pending execution of Mexican collateral documents and certain other ministerial matters an Amended And Restated Credit Agreement (the "Credit Agreement") involving our wholly-owned Mexican subsidiaries Minera Santa Rita S. de R.L. de C.V. ("MSR") and Oro de Altar S. de R.L. de C.V. ("Oro"), as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank, as the lender. Pursuant to the Credit Agreement, the Company agreed to issue to Standard Bank a two year warrant to purchase an aggregate of 150,000 shares of our common stock at an exercise price of \$3.40 per share. The warrants were valued at approximately \$103 using the Black-Scholes option pricing model and were reflected as deferred financing costs on the Company's balance sheet as of July 31, 2008. The grant date fair value of each stock warrant was \$0.68.

The balance of deferred financing costs related to these warrants, net of amortization, as of July 31, 2010 and 2009 was approximately \$1,004 and \$1,808. Amortization expense for the years ended July 31, 2010, 2009 and 2008, was approximately \$803, \$803, and \$930, respectively.

### Recapitalization

In February 2007, the Company's Certificate of Incorporation was amended to increase the Company's authorized shares of capital stock from 50,000,000 to 62,500,000 shares. In January 2008, the Company amended its Certificate of Incorporation to increase the Company's authorized shares of capital stock from 62,500,000 to 75,000,000 shares.

### Reverse Stock Split

In September 2008, our Board of Directors (the "Board") recommended to our stockholders a proposal to effect a reverse stock split of all outstanding shares of our Common Stock in an amount which our Board of Directors deemed appropriate to result in a sustained per share market price above \$2.00 per share, to be at a ratio of not less than one-for-four and not more than one-for-six (the "Reverse Stock Split"). In conjunction with the Reverse Stock Split, our Board approved and recommended to our stockholders a proposal to effect a reduction in the number of shares of Common Stock authorized for issuance and an increase in the par value thereof in proportion to the Reverse Stock Split. Our stockholders subsequently approved the reverse stock split in October 2008.

On January 25, 2010, the Company announced that, to meet minimum share price requirements in connection with its NYSE Euronext listing, it effected a reverse stock split, with every four (4) shares of common stock of the Company issued and outstanding being converted into one (1) share of common stock. As noted above, the reverse split was originally approved by shareholders at the Annual Shareholders Meeting held on October 31, 2008 and subsequently ratified by shareholders at the recent Annual Shareholders Meeting held on January 19, 2010. No fractional common

shares were issued in connection with the reverse split. A holder of common shares, who otherwise would have been entitled to receive a fractional share as a result of the reverse split, received an amount in cash equal to the dollar amount multiplied by such fractional entitlement.

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

#### Restricted Shares

On December 20, 2007, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers, directors and employees were granted 273,750 restricted shares under our 2006 Equity Incentive Plan (the "Plan"). The restricted shares granted vest equally over three years from the date of grant. The fair value of the Company's stock was \$2.52 on the date of grant resulting in the Company recording approximately \$691 in deferred compensation cost. For the years ended July 31, 2010, 2009 and 2008, the Company has recorded approximately \$112, \$230, and \$194 in equity compensation expense upon the vesting of a portion of restricted shares each period, respectively.

On July 17, 2008, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers and directors were granted 128,750 shares under our 2006 Equity Incentive Plan. The restricted shares granted vested immediately. The fair value of the Company's stock was \$2.80 on the date of grant resulting in the Company recording approximately \$360 in stock based compensation expense.

During the year ended July 31, 2009, the Company issued 55,625 restricted shares to employees under its 2006 Equity Incentive Plan. The restricted shares granted vested immediately. The fair value of the Company's stock ranged from \$1.36 to \$2.08 on the date of grant resulting in the Company recording approximately \$113 in stock based compensation expense.

In 2010, as part of the settlement agreement with the Company's former Executive Vice-President, upon his termination without cause, the unvested portion of a previous restricted share grant of 41,667 shares was forfeited. As part of the severance agreement with the Company's former Chief Executive Officer, the unvested portion of a previous restricted share grant of 20,833 shares was forfeited. An additional 833 shares, the unvested portion of a previous restricted share grant, was forfeited by a former employee of the Company. For the year ended July 31, 2010, the Company recorded adjustments to additional paid in capital and deferred compensation costs totaling approximately \$127 related to these forfeitures.

#### Warrants and Options

The fair value of each warrant and option award is estimated on the date of grant using a Black-Scholes option valuation model. The Company issues warrants and options to purchase common stock with an exercise price of no less than fair market value of the underlying stock at the date of grant.

On August 13, 2007, the Company issued two year options to purchase the Company's common stock at an exercise price ranging from \$1.72 to \$2.00 per share to outside parties for services provided. These options are for the purchase of 116,250 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately \$58 as stock based compensation expense. The average grant date fair value of each stock option was \$0.48 with an exercise price of no less than fair market value of the underlying stock at the date of grant.

On December 20, 2007, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers, directors and employees, Gifford Dieterle, John Brownlie, Christopher Chipman, Jeffrey Pritchard, Scott Hazlitt, Ian Shaw, John Postle, Mark Nesbitt, Roger Newell, Robert Roningen, and employees were granted 125,000, 125,000, 125,000, 125,000, 87,500, 37,500, 37,500, 37,500, 25,000, 25,000 and 37,500 stock options, respectively, aggregating 787,500 stock options under our 2006 Equity Incentive Plan. The stock options have a term of seven years and vest as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is \$2.52 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 787,500 options received by these individuals totaling \$1,060. For the fiscal years ended July 31, 2010, 2009 and 2008, the Company recorded approximately \$113, \$205 and \$375 in stock based compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was \$1.36.

On November 1, 2008, the Company issued stock options with a two year term to purchase the Company's common stock at an exercise price of \$2.60 per share to an investor relations firm for services provided. These options were for the purchase of 25,000 shares. The Company utilized the Black-Scholes Method to fair value the 25,000 options received by this firm and recorded approximately \$6 as stock based compensation expense. The grant date fair value of each stock option was \$0.24.

On December 3, 2008, the Company issued stock options with a two year term to purchase the Company's common stock at an exercise price of \$1.40 per share to its then securities counsel. These options were for the purchase of 6,250 shares. The Company utilized the Black-Scholes Method to fair value the 6,250 options received by these individuals and recorded approximately \$4 as equity based compensation expense. The grant date fair value of each stock option was \$0.64.

On January 20, 2009, at the recommendation of the Compensation Committee and on the approval by the Board of Directors, the Company's executive officers and directors were granted 568,750 stock options under our 2006 Equity Incentive Plan as incentive compensation. The stock options were awarded as follows: Gifford Dieterle – 125,000, John Brownlie – 125,000, Jeffrey Pritchard – 125,000, Christopher Chipman – 62,500, Scott Hazlitt – 62,500, Ian Shaw – 18,750, John Postle – 12,500, Mark T. Nesbitt – 12,500, Roger Newell -12,500 and Robert Roningen – 12,500. The stock options have a term of five years and vest as follows: one-third vested upon issuance and the balance vest on a one-third basis annually thereafter. The exercise price of the stock options is \$1.96 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 568,750 options received by these individuals totaling \$647. For the fiscal years ended July 31, 2010, 2009 and 2008, the Company recorded approximately \$124, \$335 and \$0 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was \$1.16.

On January 19, 2010, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 500,000, 50,000, 50,000, 50,000 and 37,500 options to John Brownlie, Leonard J. Sojka, John Cutler, Stephen Cooper and Trey Wasser, respectively, aggregating 687,500 stock options under our 2006 Equity Incentive Plan. The stock options for John Brownlie and Trey Wasser have a term of five years and vest as follows: one-third vested upon issuance and the balance vests on a one-third basis annually thereafter. The stock options for Leonard J. Sojka, John Cutler, and Stephen Cooper have a term of five years and vest 25,000 on January 19, 2010, 12,500 on January 19, 2011 and 12,500 on January 19, 2012. The exercise price of the stock options is \$3.60 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 687,500 options received by these individuals totaling \$1,486. For the year ended July 31, 2010 the Company recorded approximately \$592 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was \$2.16.

On July 26, 2010, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 25,000 and 25,000 options to Christopher Chipman and Scott Hazlitt, respectively, aggregating 50,000 stock options under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: 50% vested upon issuance and the balance vests 25% annually thereafter. The exercise price of the stock options is \$3.73 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 50,000 options received by these individuals totaling \$105. For the year ended July 31, 2010 the Company recorded approximately \$53 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was \$2.10.

The Company received proceeds of approximately \$565, \$319 and \$7,474 during the years ended July 31, 2010, 2009 and 2008, from the exercising of an aggregate of 181,250, 213,932 and 5,748,544 of warrants and options, respectively, issued to investors in past private placements, to officers and directors as well as to outside parties for services rendered. The Company also issued 187,342 shares upon the cashless exercising of options during the year ended July 31, 2010.

#### 2006 Equity Incentive Plan

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

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



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

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

On July 23, 2009, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, the Company amended the 2006 Equity Incentive Plan to provide for cashless exercises of options by participants under the Plan. Payment of the option exercise price may now be made (i) in cash or by check payable to the Company, (ii) in shares of Common Stock duly owned by the option holder (and for which the option holder has good title free and clear of any liens and encumbrances), valued at the fair market value on the date of exercise, or (iii) by delivery back to the Company from the shares acquired on exercise of the number of shares of common stock equal to the exercise price, valued at the fair market value on the date of exercise. Previously, the exercise price of an option must have been paid in cash. No options may be granted under the Plan after the tenth anniversary of its effective date. Unless the Board determines otherwise, there are certain continuous service requirements and the options are not transferable.

The Plan provides the Board with the general power to amend the Plan, or any portion thereof at any time in any respect without the approval of the Company's stockholders, provided however, that the stockholders must approve any amendment which increases the fixed maximum percentage of shares of common stock issuable pursuant to the Plan, reduces the exercise price of an Award held by a director, officer or ten percent stockholder or extends the term of an Award held by a director, officer or ten percent stockholder. Notwithstanding the foregoing, stockholder approval may still be necessary to satisfy the requirements of Section 422 of the Code, Rule 16b-3 of the Securities Exchange Act of 1934, as amended or any applicable stock exchange listing requirements. The Board may amend the Plan in any respect it deems necessary or advisable to provide eligible employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith. Rights under any Award granted before amendment of the Plan cannot be impaired by any amendment of the Plan unless the Participant consents in writing. The Board is empowered to amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the applicable Participant consents in writing and further provided that the Board cannot amend the exercise price of an option, the Fair Market Value of an Award or extend the term of an option or Award without obtaining the approval of the stockholders if required by the rules of the Toronto Stock Exchange or any stock exchange upon which the common stock is listed.



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Information regarding the employee and non-employee options approved by the Compensation Committee under the Equity Incentive Plan for the fiscal years ended July 31, 2010, 2009 and 2008 is summarized below:

	2010			2009			2008		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price
Outstanding beginning at year	1,503,750	\$ 1.40-2.60	\$ 2.24	1,166,250	\$ 1.44-1.80	\$ 1.52	262,500	\$ 1.44-1.80	\$ 1.52
Granted	737,500	3.60-3.73	\$ 3.61	600,000	1.40-2.60	\$ 2.00	903,750	1.52-2.52	\$ 2.44
Canceled	(1,403,908)	-	-	(86,068)	-	-	-	-	-
Exercised	(218,592)	-	-	(176,432)	-	-	-	-	-
Outstanding end of year	618,750	\$ 1.96-3.73	\$ 2.84	1,503,750	\$ 1.40-2.60	\$ 2.24	1,166,250	\$ 1.44-2.52	\$ 2.24
Exercisable	359,583	\$ 1.96-3.73	\$ 2.74	975,625	\$ 1.40-2.60	\$ 2.40	840,000	\$ 1.44-2.52	\$ 2.16
Weighted average remaining contractual life (years)	4-5 years	-	-	4-5 years	-	-	5-6 years	-	-
Available for future grants	2,819,766	-	-	150,625	-	-	806,250	-	-

NOTE 16 - Debt

Long term debt consists of the following:

(in thousands)

	July 31, 2010	July 31, 2009
Total long-term debt	\$ 4,400	\$ 8,000
Less current portion	(3,600)	(3,600)
Long-term debt	\$ 800	\$ 4,400

In September 2008, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") involving our wholly owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank, as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006 (the "Original Agreement"). Under the Original Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to US\$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of July 31, 2010 and 2009, the accrued interest on this facility was approximately \$11 and \$21, respectively.

The Credit Agreement also established a new senior secured revolving credit facility that permits the Borrowers to borrow up to \$5,000 during the one year period after the closing of the Credit Agreement. Term Loan principal shall be repaid quarterly commencing on September 30, 2008 and consists of four payments in the amount of \$1,125, followed by eight payments in the amount of \$900 and two final payments in the amount of \$400. There is no

prepayment fee. There was no amount outstanding on the revolving credit facility as of July 31, 2010. Principal under the Term Loan and the credit facility shall bear interest at a rate per annum equal to the LIBO Rate plus 2.5% and 2.0% per annum, respectively.

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The Credit Facility contains covenants customary for a term note, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, declaring or paying dividends, disposing of any assets, merging with other companies and making any investments. The Company is required to meet and maintain certain financial covenants, including (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S. \$30,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. \$500. In addition, the Credit Agreement restricts, among other things, the Company's ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, the Company obtained the consent of Standard Bank.

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

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

On June 30, 2010, Capital Gold Corporation ("Capital Gold" or the "Company") entered into the First Amendment to the Amended and Restated Credit Agreement (the "Amendment") by and among our wholly-owned Mexican subsidiaries Minera Santa Rita S. de R.L. de C.V. and Oro de Altar S. de R.L. de C.V., as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Amendment amends the Amended and Restated Credit Agreement between the parties entered into on September 18, 2008 with retroactive effect from July 17, 2008 (the "Credit Agreement"), which amended and restated the Credit Agreement between the parties dated August 15, 2006. The Credit Agreement provided for a senior secured term credit facility in the aggregate amount of \$12,500 (the "Term Facility") and provided for a senior secured revolving credit facility in the aggregate principal amount of \$5,000 (the "Revolving Facility"). Capital Gold guarantees all obligations of the Borrowers under the Term Facility and the Revolving Facility. The material amendments to the Credit Agreement contained in the Amendment are as follows:

The Amendment increases the Revolving Facility to \$7,500. The Revolving Facility is available for a two-year period commencing June 30, 2010. The Borrowers may request a borrowing of the Revolving Facility from time to time, provided that each borrowing shall be in a minimum aggregate amount of \$500. All amounts due under the Revolving Facility, including all accrued interest and other amounts described in the Credit Agreement, shall be due and payable on June 30, 2012.

Amounts borrowed under the Term Facility and the Revolving Facility bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable interest period plus the applicable margin. The applicable margin for the Revolving Facility was increased in the Amendment to 3.0% per annum.

As of July 31, 2010, the Company was in compliance with all debt covenants and default provisions. The accounts of Caborca Industrial are not subject to the debt covenants and default provisions.

In March 2006, the Company entered into a gold price protection arrangement to protect it against future fluctuations in the price of gold and interest rate swap agreements in October 2006 in accordance with the terms of the credit arrangements with Standard Bank (See Note 20 for more details on these transactions).

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

Fiscal	
Years	
Ending	
July 31,	
2011	\$ 3,600
2012	800
	\$ 4,400

NOTE 17 – Mining, Engineering and Supply Contracts

In early December 2005, the Company’s wholly-owned Mexican subsidiary, MSR, which holds the rights to develop and mine El Chanate Project, entered into a Mining Contract with a Mexican mining contractor, Sinergia Obras Civiles y Mineras, S.A. de C.V. ("Sinergia").

Pursuant to the Mining Contract, Sinergia, using its own equipment, generally is performing all of the mining work (other than crushing) at the El Chanate Project. Sinergia’s mining rates are subject to escalation on an annual basis. This escalation is tied to the percentage escalation in Sinergia’s costs for various parts for its equipment, interest rates and labor. One of the principals of Sinergia is one of the former principals of FG. FG was the Company’s former joint venture partner.

NOTE 18 - Employee and Consulting Agreements

Employment Agreements

On August 29, 2007, at the recommendation of the Compensation Committee, the Board increased the salaries of the Company’s executive officers to be commensurate with industry standards and amended their respective agreements accordingly. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, \$250; John Brownlie, Chief Operating Officer, \$225; Christopher Chipman, Chief Financial Officer, \$175 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, \$195; Roger A. Newell, Vice President - Development, \$135; and J. Scott Hazlitt, Vice President - Mine Development, \$135. The salary increase for Mr. Brownlie and the consulting fee increase for Mr. Chipman were retroactive to May 1, 2007 and the salary increase for Mr. Pritchard is retroactive to August 1, 2007.

On July 17, 2008, at the recommendation of the Compensation Committee of our Board of Directors, the Company’s executive officers were awarded salary increases effective August 1, 2008. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, \$288; John Brownlie, Chief Operating Officer, \$259; Christopher Chipman, Chief Financial Officer, \$201 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, \$224; and J. Scott Hazlitt, Vice President - Mine Development, \$155.



On October 28, 2008, the Company entered into an Engagement Agreement with John Brownlie, our Chief Operating Officer. The agreement supersedes a May 12, 2006 employment agreement between us and Mr. Brownlie. Pursuant to the Engagement Agreement, Mr. Brownlie serves as our Chief Operating Officer and receives a base annual fee of at least \$259 and is entitled to annual bonuses. The Engagement Agreement runs through August 31, 2009, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. We can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that we terminate him without cause or he terminates due to our breach, he will be entitled to certain severance payments. We previously entered into a change of control agreement with Mr. Brownlie similar to the agreements entered into with our other executive officers.

On November 1, 2008, the Company entered into an Amended and Restated Engagement Agreement with J. Scott Hazlitt, our Vice President Mine Development. The agreement supersedes a January 1, 2007 employment agreement between us and Mr. Hazlitt. Pursuant to the Engagement Agreement, as amended, Mr. Hazlitt serves as our Vice President Mine Development and receives a base annual fee of at least \$155 and is entitled to annual bonuses. The Engagement Agreement runs through August 31, 2009, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. The Company can terminate the agreement for cause or upon 30 days notice without cause. Mr. Hazlitt can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that the Company terminates him without cause or he terminates due to our breach, he will be entitled to certain termination payments. The Company previously entered into a change of control agreement with Mr. Hazlitt similar to the agreements entered into with our other executive officers.

On January 20, 2009, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, effective as of January 1, 2009, the Company entered into (i) amended and restated employment agreements with Gifford Dieterle, President and Treasurer, and Jeffrey Pritchard, Executive Vice President and (ii) amended and restated engagement agreements with Christopher Chipman, Chief Financial Officer, John Brownlie, Chief Operating Officer, and J. Scott Hazlitt, Vice President of Mine Development (collectively, the "Amended Agreements").

On January 19, 2010, the Compensation Committee of the Board of Directors of the Company approved a new employment agreement (the "Agreement") for John Brownlie, the Company's President, Chief Operating Officer and a Director of the Company. The term of the agreement is for three years commencing January 19, 2010, and will automatically extend for consecutive one-year terms unless Mr. Brownlie or the Company notifies the other party that it does not wish to extend the Agreement. The Agreement provided for an initial base salary to Mr. Brownlie of \$275 plus an immediate payment of \$375 for reaching certain milestones. The Agreement provided for an additional payment upon the accomplishment of other goals. The Agreement also granted Mr. Brownlie 500,000 stock options. The exercise price of the stock options is \$3.60 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 500,000 options. For the year ended July 31, 2010, the Company recorded approximately \$360 in equity compensation expense on the vested portion of these stock options. The grant date fair value of each stock option was \$2.16. The stock options have a term of five years and vest as follows: one-third vested upon issuance and the balance vests on a one-third basis annually thereafter.

On March 18, 2010, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, effective January 19, 2010, the Company entered into amended and restated engagement agreements with Christopher Chipman, Chief Financial Officer, and J. Scott Hazlitt, Vice President of Mine Development. The new salaries were as follows: Christopher Chipman, Chief Financial Officer, \$225 and J. Scott Hazlitt, Vice President of Mine Development, \$175.

On July 1, 2010, at the recommendation of the Compensation Committee and upon approval by the Board of Directors, the Company entered into an amended and restated engagement agreement with J. Scott Hazlitt, in connection with his promotion from Vice President of Mine Development to Chief Operating Officer. Mr. Hazlitt's salary was increased to \$200 in connection with his promotion.

Each of the Amended Agreements modify the previous employment agreement or engagement agreement in three ways. First, the Company removed a provision from the Agreement Regarding Change in Control, which is attached as an exhibit to each of the Amended Agreements, that provided that, upon a change in control of the Company, the exercise price of all issued and outstanding options would decrease to \$0.01. Second, the Company made the terms of each of the Amended Agreements consistent so that each Amended Agreement expires on December 31, 2011. Finally, the Amended Agreements incorporate amendments made in December 2008 to the employment agreements and engagement agreements to bring such agreements into documentary compliance with Section 409A of the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

The Company has the right to terminate any executive's employment for cause or on 30 days' prior written notice without cause or in the event of the executive's disability (as defined in the agreements). The agreements automatically terminate upon an executive's death. "Cause" is defined in the agreements as (1) a failure or refusal to perform the services required under the agreement; (2) a material breach by executive of any of the terms of the agreement; or (3) executive's conviction of a crime that either results in imprisonment or involves embezzlement, dishonesty, or activities injurious to the Company's reputation. In the event that the Company terminates an executive's employment without cause or due to the disability of the executive, the executive will be entitled to a lump sum severance payment equal to one month's salary, in the case of termination for disability, and up to 12 month's salary (depending upon years of service), in the case of termination without cause.

Each executive has the right to terminate his employment agreement on 60 days' prior written notice or, in the event of a material breach by the Company of any of the terms of the agreement, upon 30 days' prior written notice. In the event of a claim of material breach by the Company of the agreement, the executive must specify the breach and its failure to either (i) cure or diligently commence to cure the breach within the 30 day notice period, or (ii) dispute in good faith the existence of the material breach. In the event that an agreement terminates due to the Company's breach, the executive is entitled to severance payments in equal monthly installments beginning in the month following the executive's termination equal to three month' salary plus one additional month's salary for each year of service to the Company. Severance payments cannot exceed 12 month's salary.

In conjunction with the employment agreements, the Company's board of directors deeming it essential to the best interests of its stockholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of the company and its stockholders, determined to reinforce and encourage the continued attention and dedication of members of the Company's management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the company, it entered into identical agreements regarding change in control with the executives. Each of the agreements regarding change in control continues through December 31, 2011 and automatically to the third anniversary thereof unless the Company gives notice to the executive prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of

the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles the executive to change of control benefits, as defined in the agreements and summarized below, upon his termination of employment with the Company during a potential change in control, as defined in the agreements, or after a change in control, as defined in the agreements, when his termination is caused (1) by the Company for any reason other than permanent disability or cause, as defined in the agreement (2) by the executive for good reason as defined in the agreements or, (3) by the executive for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control. Each executive would receive a lump sum cash payment of three times his base salary and three times his bonus award from the prior year, as well as outplacement benefits. Each agreement also provides that the executive is entitled to a payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

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A “Change of Control” is deemed to occur on the earlier of (1) the date any person is or becomes the beneficial owner of securities representing 30% or more of the voting power of the Company’s then outstanding securities; (2) the date on which the following individuals cease for any reason to constitute a majority of the number of directors then serving: (i) individuals who, as of the date of the Change of Control Agreement, constitute the Board and (ii) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date of the Change of Control Agreement or whose appointment, election or nomination for election was previously so approved or recommended; (3) the consummation of a merger or consolidation of the Company or any direct or indirect subsidiary with another entity, other than a transaction where the individuals serving on the board of directors constitute at least a majority of the combined entity and the outstanding securities continue to represent at least 50% of the combined voting power of the combined entity or a transaction to effect a recapitalization of the Company where no person is or becomes the holder of securities representing 30% or more of the combined voting power; (4) the approval by the stockholders of the Company or a plan of complete liquidation or dissolution of the Company; or (5) the sale or disposition of all or substantially all of the Company’s assets, other than a sale or disposition to an entity of which 50% the combined voting power is held by the Company’s stockholders.

However, a Change in Control will not be deemed to occur if the record holders of the Company’s stock continue to have substantially the same proportionate ownership of the Company following such transaction or series of transactions.

A “Potential Change of Control” occurs when (1) the Company enters into an agreement, the consummation of which would result in a Change in Control; (2) a person publicly announces an intention to take or to consider taking actions, the consummation of which would result in a Change in Control, which announcement has not been rescinded; (3) a person becomes the beneficial owner of securities representing 20% or more of outstanding shares of common stock of the Company or the combined voting power of the Company’s then outstanding securities; or (4) the Board adopts a resolution that a Potential Change of Control exists, which resolution has not been modified.

#### Severance Agreements

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

On March 11, 2010, the Company entered into an agreement with Gifford A. Dieterle, the Chief Executive Officer (“CEO”) of the Company and Chairman of the Board, pursuant to which Mr. Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010. Pursuant to the agreement, Mr. Dieterle received lump sum payments totaling approximately \$376 in September 2010, and additional payments totaling approximately \$288 will be due in 2011. In addition, Mr. Dieterle is due an issuance of \$100 in shares of the Company's common stock, initially proposed to be received in September 2010. The number of common shares to be issued was determined by dividing \$100 by the volume weighted average closing sale price for the 10 trading days prior to September 18, 2010 on NYSE EURONEXT. The Toronto Stock Exchange (“TSX”) provided conditional approval for this issuance provided no more than 27,000 common shares were to be issued without additional written consent of TSX. TSX provided this additional written consent on October 4, 2010 to allow the issuance of an additional 1,571 shares, for a total of 28,571 shares pursuant to the severance agreement. The shares were issued, accordingly, on October 4, 2010.

On April 29, 2010, the Company entered into a severance agreement and general release with John Brownlie, the Company's President and Chief Operating Officer (“COO”), pursuant to which Mr. Brownlie's employment agreement terminated and he resigned as President and COO effective upon the consummation of the Business combination between the Company and Nayarit Gold on August 2, 2010. Pursuant to the Severance Agreement, Mr. Brownlie is entitled to severance payments in the aggregate amount of approximately \$1,388, payable over a six month period beginning June 2010; along with an additional \$375 associated with the closing of the business combination agreement with Nayarit. As of July 31, 2010, we have paid approximately \$753.

#### NOTE 19 - Fair Value Measurements

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

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

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

Assets:	Total	Fair Value at July 31, 2010 (in thousands)		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 2,798	\$ 2,798	\$ -	\$ -
Marketable securities	30	30	-	-
	\$ 2,828	\$ 2,828	\$ -	\$ -

Liabilities:

Interest rate swap	40	-	40	-
	\$ 40	\$ -	\$ 40	\$ -

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

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

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

#### NOTE 20 - Sales Contracts, Commodity and Financial Instruments

##### Gold Price Protection Agreement

In March 2006, in conjunction with the Company's credit facility, the Company entered into two identically structured derivative contracts with Standard Bank (See Note 16). Both derivatives consisted of a series of forward sales of gold and a purchase gold cap. Under these contracts, the Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to purchase gold caps. The caps allow the Company to buy gold at a price of \$535 per ounce covering the same volume and horizon as the forward sales. This combination of forward sales with purchased call options synthesizes a put position, which, in turn, serves to put a floor on the Company's sales price.

On February 24, 2009, the Company settled with Standard Bank, the remaining 58,233 ounces of gold under the original Gold Price Protection arrangements entered into in March 2006. The purpose of these arrangements at the time was to protect the Company in the event the gold price dropped below \$500 per ounce. Total remuneration to unwind these arrangements was approximately \$1,906. In conjunction with the settlement of the gold price protection agreement, the Company incurred an Other Expense of approximately \$1,391 during the year ended July 31, 2009.

Prior to unwinding these arrangements, the volume of these derivative positions represented about 44% and 86% of sales during the years ended July 31, 2009 and 2008, respectively, such that these derivative positions mitigate the Company's gold price risk, rather than eliminate or reverse the natural exposure of the Company.

In accordance with ASC guidance for derivatives and hedging, these contracts must be carried on the balance sheet at their fair value. The Company records these changes in fair value and any cash settlements within Other Income or Expense. The contracts were not designated as hedging derivatives, and therefore special hedge accounting is not applied.

The following is a reconciliation of the derivative contracts regarding the Company's Gold Price Protection agreement:

	(in thousands)
Liability balance as of July 31, 2008	\$ 738
Loss on change in fair value of derivative	1,975
Net cash settlements	(2,713)
Liability balance as of July 31, 2009	\$ -
Loss on change in fair value of derivative	-
Net cash settlements	-
Liability balance as of July 31, 2010	\$ -

Rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, the Company opted for a net cash settlement between the call option purchase price of \$535 and the forward sale price of \$500, or \$35.00 per ounce.

#### Interest Rate Swap Agreement

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

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

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

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

	(in thousands)
Liability balance as of July 31, 2008	\$ 192
Change in fair value of swap agreement	130

Interest expense (income)	50
Net cash settlements	(179)
Liability balance as of July 31, 2009 \$	193
Change in fair value of swap agreement	27
Interest expense (income)	-
Net cash settlements	(180)
Liability balance as of July 31, 2010 \$	40

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

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

Quarter Ended	Derivatives in Cash Flow Hedging Relationships	Effective Results Recognized in OCI	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Income	Ineffective Results Recognized in Earnings	Location of Ineffective Results
7/31/08	Interest Rate contracts	\$ 19	Interest Income (Expense)	(49)	-	N/A
10/31/08	Interest Rate contracts	\$ (38)	Interest Income (Expense)	(38)	-	N/A
1/31/09	Interest Rate contracts	\$ (95)	Interest Income (Expense)	(35)	-	N/A
4/30/09	Interest Rate contracts	\$ (16)	Interest Income (Expense)	(55)	-	N/A
7/31/09	Interest Rate contracts	\$ (19)	Interest Income (Expense)	(55)	-	N/A
10/31/09	Interest Rate contracts	\$ (16)	Interest Income (Expense)	(53)	-	N/A
1/31/10	Interest Rate contracts	\$ (8)	Interest Income (Expense)	(48)	-	N/A
4/30/10	Interest Rate contracts	\$ (1)	Interest Income (Expense)	(38)	-	N/A
7/31/10	Interest Rate contracts	\$ (2)	Interest Income (Expense)	(30)	-	N/A

Quarter Ended	Derivatives Not Designated in Hedging Relationships	Location of Results	Amount of Gain (Loss)
7/31/08	Gold contracts	Other Income (Expense)	\$ (319)
10/31/08	Gold contracts	Other Income (Expense)	\$ (304)
1/31/09	Gold contracts	Other Income (Expense)	\$ (274)
4/30/09	Gold contracts	Other Income (Expense)	\$ -
7/31/09	Gold contracts	Other Income (Expense)	\$ -
10/31/09	Gold contracts	Other Income (Expense)	\$ -
1/31/10	Gold contracts	Other Income (Expense)	\$ -

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4/30/10	Gold contracts	Other Income		
		(Expense)	\$	-
7/31/10	Gold contracts	Other Income		
		(Expense)	\$	-

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

		Liability Derivatives	
July 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	\$	192
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	\$	738
		Liability Derivatives	
October 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	199
Derivatives designated as non- hedging instruments			
Gold derivatives	Current Liabilities	\$	734
		Liability Derivatives	
January 31, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	268
Derivatives designated as non-hedging instruments			
Gold derivatives	Current Liabilities	\$	719
		Liability Derivatives	
April 30, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	228
		Liability Derivatives	
July 31, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	193
		Liability Derivatives	
October 31, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	154
Derivatives designated as non- hedging instruments			
		Liability Derivatives	
January 31, 2010	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	\$	112
Derivatives designated as non-hedging instruments			

Liability Derivatives		
April 30, 2010	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Current Liabilities	\$ 72
Liability Derivatives		
July 31, 2010	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Current Liabilities	\$ 40

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## NOTE 21 – Accrued Expenses

Accrued expenses consist of the following:

	July 31, 2010	July 31, 2009
Net smelter return	\$ 388	\$ 212
Mining contract	497	30
Income tax payable	1,900	507
Utilities	126	128
Interest	11	21
Legal and professional	70	125
Salaries, wages and related benefits	662	533
Severance	1,279	-
Other liabilities	107	77
	\$ 5,040	\$ 1,633

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## NOTE 22 - Income Taxes

The Company's income tax expense consisted of:

	July 31, 2010	July 31, 2009	July 31, 2008
Current:			
United States	\$ -	\$ -	\$ -
Foreign	(8,062)	(3,909)	(2,111)
	(8,062)	(3,909)	(2,111)
Deferred:			
United States	-	-	-
Foreign	(3,963)	(1,633)	(1,396)
	(3,963)	(1,633)	(1,396)
Total	\$ (12,025)	\$ (5,542)	\$ (3,507)

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

	July 31, 2010	July 31, 2009	July 31, 2008
United States	\$ (9,817)	\$ (6,631)	\$ (6,556)
Foreign	33,836	22,580	16,427
Total	\$ 24,019	\$ 15,949	\$ 9,871

The Company's income tax expense differed from the amounts computed by applying the United States statutory corporate income tax rate for the following reasons:

	(in thousands)		
	July 31, 2010	July 31, 2009	July 31, 2008
Income before income tax	\$ 24,019	\$ 15,949	\$ 9,871
US statutory corporate income tax rate	34%	34%	34%
Income tax expense computed at US statutory corporate income tax rate	(8,166)	(5,423)	(3,356)
Reconciling items:			
Change in valuation allowance on deferred tax assets	(2,843)	(1,474)	(1,137)
Royalty payments non-deductible	(844)	-	-
Prior year true-ups	(722)	-	-
Other	(521)	-	-
Difference in foreign tax	1,071	1,355	986
Income tax expense	\$ (12,025)	\$ (5,542)	\$ (3,507)

Components of the Company's deferred income tax assets (liabilities) are as follows:

	July 31, 2010	July 31, 2009	July 31, 2008
Net deferred income tax assets (liabilities), non-current:			
Remediation and reclamation costs	\$ -	\$ (44)	\$ (29)
Net operating losses	15,592	12,004	9,334
Depreciation and amortization	(971)	76	602
	\$ 14,621	\$ 12,036	\$ 9,907
Valuation allowances	(15,592)	(12,004)	(9,334)
	\$ (971)	\$ 32	\$ 573
Net deferred income tax liabilities, current:			
Inventory valuation	\$ (7,679)	\$ (3,846)	\$ (1,925)
Accounts receivable	-	(567)	(413)
Other	217	180	275
	\$ (7,462)	\$ (4,233)	\$ (2,063)

The Company has not provided for U.S. Federal and foreign withholding taxes on \$44,607 of foreign subsidiary undistributed earnings as of July 31, 2010. Such earnings are intended to be reinvested indefinitely.

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

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

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

Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The measurement of deferred income tax assets is reduced, if necessary, by a valuation allowance for any tax benefits, which are, on a more likely than not basis, not expected to be realized; in accordance with ASC guidance for income taxes. Net deferred tax benefits related to the U.S. operations have been fully reserved at July 31, 2010 and 2009. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

For income tax purposes in the United States, the Company had available net operating loss carryforwards ("NOL") as of July 31, 2010, 2009 and 2008 of \$35,833, \$27,912 and \$22,179, respectively to reduce future federal taxable income. If any of the NOL's are not utilized, they will expire at various dates through 2028. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

NOTE 23 - Commitments and Contingencies

Lease Commitments

The Company occupies office space in New York City under a non-cancelable escalating operating lease that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs. The Company also occupies office space in Caborca, Sonora, Mexico that commenced on March 2, 2009 and terminates on March 1, 2013. The Company occupies space in Hermosillo, Sonora, Mexico that commenced on March 1, 2010 and terminates on February 28, 2011.

The Company leased 12 mining concessions totaling 1,790 hectares located northwest of Saric, Sonora, Mexico. These concessions are about a sixty mile drive northeast of the El Chanate project. The lease agreement, which allows us to explore the property, required an initial payment of \$45 upon execution of the lease. In addition, we are required to make ten payments of \$25 every four months beginning six months after execution of the lease agreement. The agreement also contains an option for us to acquire the mining concessions for a cash payment of \$1,500 at the end of the term or December 2010. If we elect not to exercise this option, we would have the ability to mine the concessions but pay a 1% net smelter return capped at \$3,000. Prior payments made under this lease agreement would be deductible from the \$3,000 cap.

Approximate future minimum payments under these operating leases are as follows (in thousands):

F i s c a l  
Y e a r s  
E n d i n g  
July 31,

2011	261
2012	231
2013	30
	\$ 522

Rent expense was approximately \$184, \$155 and \$107 for the years ended July 31, 2010, 2009 and 2008, respectively.

Land Easement

On May 25, 2005, MSR entered into an agreement for an irrevocable access easement and an irrevocable fluids (electricity, gas, water and others) easement to land located at Altar, Sonora, Mexico. The term of the agreement is five years, extendable for 1-year additional terms, upon MSR's request. The agreement would be suspended only by force majeure; and extendable for the duration of the suspension. In consideration for these easements, \$18 was paid upon the signing of the agreement and yearly advance payments equal to two annualized general minimum wages (365 X 2 general minimum wages) in force in Altar, Sonora, Mexico, are required. These yearly payments are to be made on September 1 of each year, using the minimum wage in effect on that day for the calculation of the amount payable. These payments are to be made for as long as the construction and production mining works and activities of

MSR are being carried out, and are to cease as soon as such works and activities are permanently stopped.

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## El Charro

In May 2005, the Company acquired rights to the El Charro concession for approximately \$20 and a royalty of 1.5% of net smelter return. The Company acquired the El Charro concession because it contains a known gold occurrence and is surrounded entirely by the Company's other concessions.

## NOTE 24 – Unaudited Supplementary Data

The following is a summary of selected fiscal quarterly financial information (unaudited and in thousands except per share data and price):

	2010			
	Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	\$ 11,727	\$ 13,228	\$ 17,525	\$ 18,164
Costs applicable to sales	\$ 4,110	\$ 4,625	\$ 6,601	\$ 6,680
Net income applicable to common shares	\$ 2,939	\$ 2,944	\$ 2,779	\$ 3,332
Net income per common share, basic	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.07
Net income per common share, diluted	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.07
Basic weighted-average shares outstanding	48,482	48,494	48,487	48,577
Diluted weighted-average shares outstanding	49,997	49,977	50,265	49,913
Closing price of common stock	\$ 3.08	\$ 2.94	\$ 3.66	\$ 3.73

	2009			
	Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	\$ 9,175	\$ 11,369	\$ 12,395	\$ 9,818
Costs applicable to sales	\$ 3,042	\$ 3,655	\$ 3,698	\$ 3,488
Net income applicable to common shares	\$ 1,936	\$ 3,196	\$ 2,554	\$ 2,721
Net income per common share, basic	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.06
Net income per common share, diluted	\$ 0.04	\$ 0.06	\$ 0.05	\$ 0.05
Basic weighted-average shares outstanding	48,211	48,299	48,341	48,394
Diluted weighted-average shares outstanding	49,586	49,,677	50,207	50,204
Closing price of common stock	\$ 1.16	\$ 2.52	\$ 2.16	\$ 2.44



## NOTE 25 – SEGMENTED INFORMATION

Information is reported on a geographic basis, and therefore the Company’s operating segments are represented by operations in the U.S. and Mexico. Revenue is derived from the sale of gold.

The following are the operating results by segment:

	Mexico	U.S.	July 31, 2010
Revenues from mining operations (El Chanate Mine)	\$ 60,645	\$ -	\$ 60,645
Property & Equipment – Net	\$ 21,349	\$ 41	\$ 21,390

## NOTE 26 – Business Combination

On February 10, 2010, Capital Gold Corporation (the “Company”) entered into a business combination agreement (the “Business Combination Agreement”) with Nayarit Gold Inc., (“Nayarit”), a corporation organized under the Ontario Business Corporation Act (“OBCA”). Pursuant to the terms of the Business Combination Agreement, the Company and Nayarit intend to effect an amalgamation (the “Amalgamation”) of Nayarit and a corporation, to be organized under the OBCA as a wholly-owned subsidiary of the Company (“Merger Sub”), to form a combined entity (“AmalgSub” or “Surviving Company”), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub shall thereupon cease, and AmalgSub, as the surviving company in the Amalgamation, shall continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Business Combination Agreement, by virtue of the Amalgamation and without any action on the part of Nayarit or the holders of any securities of Nayarit, all of the Nayarit shares of common stock (the “Nayarit Common Shares”) issued and outstanding immediately prior to the consummation of the Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) shall become exchangeable into the Company’s common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share (the “Amalgamation Consideration”). The Business Combination was consummated on August 2, 2010 (See Note 27).

## NOTE 27 – Subsequent Events

On August 4, 2010, Mr. Leonard Sojka resigned as a member of the Board of Directors of the Company. Mr. Sojka did not resign from the Company’s Board of Directors as a result of any disagreements with the Company on any matter relating to the Company’s operations, policies or practices.

On August 27, 2010, the Board of Directors of the Company appointed Mr. Gary Huber to the Board. Mr. Huber was also appointed as a member of the Audit Committee, the Compensation Committee, the Nominating and the Corporate Governance Committee of the Board.

In August 2010, the Company committed to the purchase of agglomeration equipment for the El Chanate Mine. The total cost of this equipment is approximately \$2,000. We paid \$533 as a deposit toward the acquisition of this equipment.

In connection with the consummation of the Business Combination, the Company entered into a separate employment agreement with Colin Sutherland, the former CEO and President of Nayarit, to become the President of the Company. The agreement has an initial one year term, which automatically renews unless either party gives 60 days written notice prior to the expiration of the term. Either party may terminate the employment relationship at any time, subject to possible severance payments as set forth below. Pursuant to the agreement, Mr. Sutherland is entitled to receive an annual base salary of \$226. The agreement also provides for the award of an annual discretionary bonus. Also, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 25,000 options to Mr. Sutherland under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: 50% vested upon issuance and the balance vests 25% annually thereafter. The exercise price of the stock options is \$3.73 per share

Pursuant to the employment agreement, the Company will be obligated to make severance payments to Mr. Sutherland if the employment relationship is terminated by the Company without Cause (as defined in the Employment Agreement) or by the employee for a material breach by the Company of any of the terms of the Employment Agreement. The Employment Agreement provides for the payment of severance to Mr. Sutherland in the following amounts: (a) a lump sum equal to one year of base salary if the Company terminates without cause or employee terminates for material breach by the Company, provided at least one year has elapsed since the date of employee's original employment; (b) a lump sum equal to eighteen months of base salary if the Company terminates without cause, provided at least five years has elapsed since the date of employee's original employment; (c) a lump sum equal to three months of base salary in the event the Company does not renew the Employment Agreement pursuant to notice prior to the expiration of the term.

#### ACQUISITION OF NAYARIT GOLD, INC.

Capital Gold Corporation ("Capital Gold") is a party to that certain Business Combination Agreement (the "Agreement"), dated as of February 10, 2010, as amended by Amendment No. 1 to the Agreement, dated as of April 29, 2010 and the Extension Agreement dated as of July 6, 2010, by and among Capital Gold, Nayarit Gold Inc. ("Nayarit"), John Brownlie, Colin Sutherland and Brad Langille. The Business Combination was consummated on August 2, 2010. As a result of the Business Combination, Nayarit became a wholly-owned subsidiary of the Company. In connection with the Business Combination, each outstanding share of Nayarit common stock was converted into 0.134048 shares of Capital Gold common stock, with cash paid in lieu of any fractional share. Capital Gold issued 12,454,354 shares of its common stock in the Business Combination to Nayarit's current stockholders and has reserved for issuance an additional 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the consummation of the Business Combination, the stockholders of Nayarit own approximately 20.4% of Capital Gold on a non-diluted basis.

Based on the closing price of the Company's common stock on August 2, 2010, the consideration received by Nayarit shareholders had a value of approximately \$47.6 million as detailed below.

Conversion Calculation	Estimated Fair Value	Form of Consideration
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(In thousands, except per share amounts)

Number of Nayarit shares outstanding as of the Amalgamation date	92,910	
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Exchange ratio(1)	0.134048	
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Number of shares issued to Nayarit shareholders	12,454		
Value of Capital Gold common shares issued(1)	\$ 3.71	\$ 46,206	Capital Gold Common stock
Value of Nayarit's options and warrants to be exchanged for Capital Gold options and warrants (2)		1,393	Capital Gold Options and Warrants
Total consideration transferred		\$ 47,599	

(1) In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred was the closing market price of Capital Gold's common stock on the effective date of the Amalgamation. The pro forma shares issued was 12,454,354 common shares, which is calculated by multiplying 0.134048 by 92,909,659, being the number of shares of Nayarit common stock outstanding on August 2, 2010. Nayarit shareholders own approximately 20.4% of the issued and outstanding shares of Capital Gold common stock.

(2) Represents the fair value to acquire 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. The fair value of the warrants and options were estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	\$ 3.71
	3.28 -
Post conversion strike price	\$ \$9.92
Average expected volatility	70%
Dividend yield	None
Average risk-free interest rate	0.29%
Average contractual term	.79 years
Black-Scholes average value per warrant and option	\$ 0.57

The expected volatility of Capital Gold's stock price is based on the average historical volatility which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants and options is based on the remaining contractual exercise term of each warrant and option. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants and options.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed on August 2, 2010:

	Fair Value (in thousands)
Cash and cash equivalents	\$ 50
Short-term investments	2
Prepaid expenses and sundry receivables	1,238
Property, plant and equipment	196
Mineral interests – indicated and inferred	43,822
Exploration interests	3,627
Accounts payable and liabilities assumed	(1,336)
Net assets acquired	\$ 47,599

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results from operations. The Company's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Nayarit's tangible and identifiable assets and liabilities. The amount allocated to the mineral and exploration interests was based on a valuation report prepared by a third party appraisal firm. The allocation is not considered final as of the date of this report as management is still reviewing certain of the underlying assumptions and calculations used in the allocation to the assets and liabilities of Nayarit that were acquired. However, the Company believes the final purchase price allocation will not be materially different than presented herein.

During the twelve months ended July 31, 2010, the Company incurred transaction costs consisting primarily of legal, professional, investment advisory and accounting fees of \$2.4 million. These costs are included in general and administrative expenses on the consolidated statement of operations.

#### Pro forma Information

The following unaudited pro forma results of operations of the Company for the fiscal years ended July 31, 2010 and 2009 assume that the acquisition of the operating assets of the significant business acquired during 2010 and 2009 had occurred on August 1 of the respective year in which the business was acquired and for the comparable period only. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, or are they necessarily indicative of future results of operations.

(in thousands)

	Year Ended July 31, 2010	Year Ended July 31, 2009
Revenues	\$ 60,645	\$ 42,757
Net income	\$ 10,905	\$ 2,270
Income per common share:		
Basic – net income	\$ 0.18	\$ 0.04
Diluted – net income	\$ 0.18	\$ 0.03

#### 2010 Pro forma Results – Twelve Months Ended July 31, 2010

The 2010 pro forma results were calculated by combining the results of Capital Gold with the stand-alone historical results of Nayarit Gold for the twelve months ended June 30, 2010. The elimination of \$2.4 million in transaction related costs were made which would have been incurred during the twelve months ended July 31, 2010 had the acquisition commenced on August 1, 2009.

NAYARIT COMMITMENTS

Nayarit through its wholly-owned subsidiary, Nayarit Gold de Mexico, S.A. de C.V. (“Nayarit Mexico”), has the exclusive right to explore and, as the case may be, exploit the “La Estrella” (title 196009) mining concession. For the exploration rights of La Estrella, Nayarit Mexico has paid as of October 1, 2010 the amount of \$550 plus applicable Value Added Tax, and shall pay the following amounts in the dates indicated below, after which payment, Nayarit Mexico will acquire 100% interest to La Estrella concession:

- (i) \$100 plus applicable Value Added Tax, in December 8, 2010;
- (ii) \$100 plus applicable Value Added Tax, in June 8, 2011;
- (iii) \$175 plus applicable Value Added Tax, in December 8, 2011
- (iv) \$175 plus applicable Value Added Tax, in June 8, 2012; and
- (v) \$350 plus applicable Value Added Tax, in December 8, 2012.

Nayarit Mexico has the unlimited right to explore the following mining concessions (“Huajicari Concessions”), in accordance with the terms of and Exploration and Assignment Option Agreement of Mining Concessions (the “Option Agreement”) dated May 8, 2008, which was entered into by and between Compañía Minera Huajicari, S.A. de C.V. (“Huajicari”) and Nayarit Mexico and amendment thereto, dated December 10, 2009:

CLAIM	TITLE NUMBER
“San Juan Fracc. I”	205392
“San Juan Fracc. II”	205393
“San Francisco Tres”	203136
“San Juan I”	221365
“Isis”	214395
“San Miguel”	224392

For the exploration rights of the Huajicari Concessions as described above, Nayarit Mexico has paid through October 1, 2010 the amount of \$2,250, and shall pay \$250 by October 31, 2010, after which payment, Nayarit Mexico will acquire 100% interest to Huajicari Concessions.

DEFINITIVE AGREEMENT – GAMMON GOLD, INC.

On October 1, 2010, the Company and Gammon Gold Inc. (“Gammon Gold”) have entered into a definitive merger agreement pursuant to which Gammon Gold will offer to acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the “Acquisition”). The total consideration for the purchase of 100% of the fully diluted in-the-money shares of Capital Gold is approximately US \$288 million or US \$4.57 per Capital Gold

share based on Gammon Gold's closing price on September 24, 2010 on the NYSE. The Acquisition has the unanimous support of both companies' Boards of Directors and Officers. Under the terms of the Acquisition, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US\$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold's shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. This transaction is subject to approval by shareholders of Capital Gold and no assurance can be given to a successful consummation of this transaction.

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## LEGAL PROCEEDINGS

On October 4, 2010, Walter Earl Jenkins and Jonathan Schroeder, each represented by the same law firm, filed identical lawsuits against Capital Gold, its directors and Gammon Gold in New York Supreme Court claiming, among other things, that the directors of Capital Gold breached their fiduciary duties to Capital Gold in connection with the approval of the merger agreement between Capital Gold and Gammon Gold. The plaintiffs purport to represent a class of all stockholders of Capital Gold stock other than stockholders who are affiliates of Capital Gold. The plaintiffs have asked the Court to enjoin Capital Gold from consummating its merger with Gammon Gold.

On October 7, 2010, Mel Leone filed a lawsuit against Capital Gold, its directors and Gammon Gold in New York Supreme Court.

On October 8, 2010, W. Jeffrey Kramer filed a lawsuit against Capital Gold, its directors, its Chief Financial Officer and Gammon Gold in New York Supreme Court.

On October 8, 2010, Helmut Boehm filed a lawsuit against Capital Gold, its directors, Gammon Gold and Capital Gold AcquireCo, Inc., a wholly-owned subsidiary of Gammon Gold, in the Court of Chancery in the state of Delaware.

Each of the above-referenced complaints state claims and seek relief substantially identical to the claims made and relief sought in the Jenkins and Schroeder lawsuits. Capital Gold believes all plaintiffs' allegations are without merit and intends to vigorously defend itself against such allegations.

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