

CAPITAL GOLD CORP  
Form 424B3  
March 19, 2007

Filed Pursuant to Rule 424(b)(3) Registration No.s 333-138858,  
333-133565, 333-129939 and 333-123216

PROSPECTUS SUPPLEMENT  
Number 2  
to  
Prospectus dated December 5, 2006  
of  
CAPITAL GOLD CORPORATION

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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This prospectus supplement no. 2 supplements the information provided in our prospectus dated December 5, 2006 and supplement no. 1 thereto. This prospectus supplement should be read in conjunction with that Prospectus and supplement no. 1, which are to be delivered with this prospectus supplement.

This Prospectus Supplement includes our Quarterly Report on Form 10-QSB for the quarter ended January 31, 2007 filed with the Securities and Exchange Commission on March 19, 2007.

The date of this Prospectus Supplement is March 19, 2007.

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

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

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-13078

CAPITAL GOLD CORPORATION

(Exact name of small business issuer as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

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

76 Beaver Street, 26<sup>TH</sup> floor, New York, NY 10005  
(Address of principal executive offices)

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date.

Class  
Common Stock, par value \$.0001 per share

Outstanding at March 14, 2007  
165,629,248

Transitional Small Business Format (check one); Yes  No



**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three and six months ended January 31, 2007.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended July 31, 2006.

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

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

January 31,  
2007

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	6,106,420
Loans Receivable - Affiliate (Note 8 and 11)		45,495
Prepaid Assets		74,243
Marketable Securities (Note 3)		85,000
Deposits (Note 17)		598,812
Other Current Assets (Note 18)		610,567
<b>Total Current Assets</b>		<b>7,520,537</b>

Mining Concessions (Note 7)		70,104
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Property & Equipment - net (Note 4)		11,894,788
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Intangible Assets - net (Note 5)		512,000
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Other Assets:

Other Investments (Note 9)		28,052
Deferred Financing Costs (Note 13)		660,655
Mining Reclamation Bonds (Note 6)		35,550
Other		42,286
Security Deposits		9,599
<b>Total Other Assets</b>		<b>776,142</b>

<b>Total Assets</b>	<b>\$</b>	<b>20,773,571</b>
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts Payable	\$	234,206
Accrued Expenses		393,150
Derivative Contracts (Note 16)		343,625
<b>Total Current Liabilities</b>		<b>970,981</b>

Note Payable		8,750,000
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<b>Total Long-term Liabilities (Note 13)</b>		<b>8,750,000</b>
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Commitments and Contingencies

Stockholders' Equity:

Common Stock, Par Value \$.0001 Per Share; Authorized 200,000,000 shares; Issued and Outstanding 151,489,250 Shares		15,149
Additional Paid-In Capital		48,945,745

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Deficit Accumulated in the Development Stage	(34,222,755)
Deferred Financing Costs (Note 13)	(3,903,363)
Deferred Compensation	(52,500)
Accumulated Other Comprehensive Loss (Note 10)	270,315
Total Stockholders' Equity	11,052,590
Total Liabilities and Stockholders' Equity	\$ 20,773,571

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

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

	For The Three Months Ended January 31,		For the Period September 17, 1982 (Inception) To January 31, 2007
	2007	2006	
Revenues	\$ -	\$ -	\$ -
Costs and Expenses:			
Mine Expenses	301,451	500,831	10,118,390
Write-Down of Mining, Milling and Other Property and Equipment	-	-	1,299,445
Selling, General and Administrative Expenses	548,925	424,954	13,179,622
Stocks and Warrants issued for Services	101,209	-	9,600,447
Depreciation and Amortization	272,607	10,767	760,178
Total Costs and Expenses	1,224,192	936,552	34,958,082
Loss from Operations	(1,224,192)	(936,552)	(34,958,082)
Other Income (Expense):			
Interest Income	12,112	15,274	1,013,407
Interest Expense	(175,254)	-	(197,835)
Miscellaneous	-	-	36,199
Loss on Sale of Property and Equipment	-	-	(155,713)
Gain on Sale of Subsidiary	-	-	1,907,903
Option Payment	-	-	70,688
Loss on change in fair value of derivative	(286,150)	-	(1,109,931)
Loss on Write-Off of Investment	-	-	(10,000)
Loss on Joint Venture	-	-	(901,700)
Loss on Option	-	-	(50,000)
Gain (Loss) on Other Investments	-	-	(3,697)
Loss on Write -Off of Minority Interest	-	-	(150,382)
Total Other Income (Expense)	(449,292)	15,274	448,939
Loss Before Minority Interest	(1,673,484)	(921,278)	(34,509,143)
Minority Interest	-	-	286,388
Net Loss	\$ (1,673,484)	\$ (921,278)	\$ (34,222,755)
Net Loss Per Common Share - Basic and Diluted	\$ (0.01)	\$ (0.01)	
Weighted Average Common Shares Outstanding	138,074,015	98,506,970	

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





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

	For The Six Months Ended January 31,		For the Period September 17, 1982 (Inception) To January 31, 2007
	2007	2006	
Revenues	\$ -	\$ -	\$ -
Costs and Expenses:			
Mine Expenses	513,678	1,041,382	10,118,390
Write-Down of Mining, Milling and Other Property and Equipment	-	-	1,299,445
Selling, General and Administrative Expenses	1,181,162	714,301	13,179,622
Stocks and Warrants issued for Services	101,209	-	9,600,447
Depreciation and Amortization	346,052	19,337	760,178
Total Costs and Expenses	2,142,101	1,775,020	34,958,082
Loss from Operations	(2,142,101)	(1,775,020)	(34,958,082)
Other Income (Expense):			
Interest Income	33,690	40,780	1,013,407
Interest Expense	(197,835)	-	(197,835)
Miscellaneous	-	-	36,199
Loss on Sale of Property and Equipment	-	-	(155,713)
Gain on Sale of Subsidiary	-	-	1,907,903
Option Payment	-	-	70,688
Loss on change in fair value of derivative	(528,007)	-	(1,109,931)
Loss on Write-Off of Investment	-	-	(10,000)
Loss on Joint Venture	-	-	(901,700)
Loss on Option	-	-	(50,000)
Gain (Loss) on Other Investments	-	-	(3,697)
Loss on Write -Off of Minority Interest	-	-	(150,382)
Total Other Income (Expense)	(692,152)	40,780	448,939
Loss Before Minority Interest	(2,834,253)	(1,734,240)	(34,509,143)
Minority Interest	-	-	286,388
Net Loss	\$ (2,834,253)	\$ (1,734,240)	\$ (34,222,755)
Net Loss Per Common Share - Basic and Diluted	\$ (0.02)	\$ (0.02)	
Weighted Average Common Shares Outstanding	133,811,028	96,418,426	

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



CAPITAL GOLD CORPORATION  
(A DEVELOPMENT STAGE ENTERPRISE)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JULY 31, 2007  
(UNAUDITED)

	Common Shares	Stock Amount	Additional paid-in- capital	Deficit Accumulated in the Development Stage	Accumulated Other Comprehensive Income/ (Loss)	Deferred Financing Costs	Deferred Compensation Costs	Total Stockholder Equity
Balance at July 31, 2006	131,635,129	13,163	40,733,825	(31,388,503)	146,493	(522,541)	(52,500)	8,929,937
Deferred Financing Costs	1,150,000	115	350,635	-	-	(350,750)	-	-
Deferred Financing Costs	-	-	3,314,449	-	-	(3,314,449)	-	-
Amortization of Deferred Finance Costs	-	-	-	-	-	284,377	-	284,377
Options and warrants issued for services	-	-	135,322	-	-	-	-	135,322
Private Placement, Net	12,561,667	1,256	3,484,606	-	-	-	-	3,485,862
Common Stock issued upon the exercising of options and warrants	6,142,454	615	926,908	-	-	-	-	927,523
Unrealized loss on marketable securities	-	-	-	-	(5,000)	-	-	(5,000)
Change in fair value on interest rate swaps	-	-	-	-	(33,433)	-	-	(33,433)
Equity adjustment from foreign currency translation	-	-	-	-	162,255	-	-	162,255
Net loss for the six months	-	-	-	(2,834,253)	-	-	-	(2,834,253)

ended January  
31, 2007

Balance -

January 31,

2007                    151,489,250 \$ 15,149 \$ 48,945,745 \$ (34,222,756)\$ 270,315 \$ (3,903,363)\$ (52,500)\$ 11,052,590

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

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

	For The Six Months Ended January 31,		For The Period September 17, 1982 (Inception) To January 31, 2007
	2007	2006	
<b>Cash Flow From Operating Activities:</b>			
Net Loss	\$ (2,834,253)	\$ (1,734,240)	\$ (34,222,756)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	346,952	19,337	769,648
Gain on Sale of Subsidiary	-	-	(1,907,903)
Minority Interest in Net Loss of Subsidiary	-	-	(286,388)
Write-Down of Impaired Mining, Milling and Other Property and Equipment	-	-	1,299,445
Loss on Sale of Property and Equipment	-	-	155,713
Loss on change in fair value of derivative	528,268	-	1,110,192
Loss on Write-Off of Investment	-	-	10,000
Loss on Joint Venture	-	-	901,700
Loss on Write-Off of Minority Interest Value of Common Stock and Warrants Issued for Services	135,322	-	12,720,937
<b>Changes in Operating Assets and Liabilities:</b>			
(Increase) Decrease in Prepaid Expenses	(34,169)	(15,891)	(55,251)
(Increase) Decrease in Other Current Assets	3,873,285	(14,316)	(1,392,554)
(Increase) in Other Deposits	(348,812)	(36,000)	(616,812)
Increase (Decrease) in Other Assets	767	755	(41,901)
(Increase) in Security Deposits	-	-	(9,605)
Increase (Decrease) in Accounts Payable	(24,766)	33,880	317,418
Increase (Decrease) in Accrued Expenses	36,478	(66,675)	173,407
Net Cash Provided by (Used in) Operating Activities	1,679,072	(1,813,150)	(20,924,328)
<b>Cash Flow From Investing Activities:</b>			
(Increase) in Other Investments	(6,572)	(260)	(28,312)

Purchase of Mining, Milling and Other Property and Equipment	(10,872,197)	(45,958)	(14,063,479)
Purchase of Concessions	-	-	(25,324)
Investment in Intangibles	(500,000)	-	(518,620)
Proceeds on Sale of Mining, Milling and Other Property and Equipment	-	-	275,638
Proceeds From Sale of Subsidiary	-	-	2,131,616
Expenses of Sale of Subsidiary	-	-	(101,159)
Advance Payments - Joint Venture	-	-	98,922
Investment in Joint Venture	-	-	(101,700)
Investment in Privately Held Company	-	-	(10,000)
Net Assets of Business Acquired (Net of Cash)	-	-	(42,130)
Investment in Marketable Securities	-	-	(50,000)

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

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	For The Six Months Ended January 31,		For The Period September 17, 1982 (Inception) To January 31, 2007
	2007	2006	
Net Cash Used in Investing Activities	(11,378,769)	(46,218)	(12,434,548)
<b>Cash Flow From Financing Activities:</b>			
Advances to Affiliate	(3,750)	(5,825)	(49,072)
Proceeds from Borrowing on Credit Facility	8,750,000		8,750,000
Proceeds of Borrowings - Officers	-	-	18,673
Repayment of Loans Payable - Officers	-	-	(18,673)
Proceeds of Note Payable	-	-	11,218
Payments of Note Payable	-	-	(11,218)
Proceeds From Issuance of Common Stock, net	4,413,385	715,820	31,264,229
Commissions on Sale of Common Stock	-	-	(5,250)
Deferred Finance Costs	(257,271)	(100,000)	(708,048)
Expenses of Initial Public Offering	-	-	(408,763)
Capital Contributions - Joint Venture Subsidiary	-	-	304,564
Purchase of Certificate of Deposit - Restricted	-	-	(5,000)
Purchase of Mining Reclamation Bonds	-	-	(30,550)
Net Cash Provided By (Used In) Financing Activities	12,902,364	(609,995)	39,112,110
Effect of Exchange Rate Changes	162,255	50,152	353,186
Increase (Decrease) In Cash and Cash Equivalents	3,364,922	(1,199,222)	6,106,420
Cash and Cash Equivalents - Beginning	2,741,498	4,281,548	-
Cash and Cash Equivalents - Ending	\$ 6,106,420	\$ 3,082,326	\$ 6,106,420
<b>Supplemental Cash Flow Information:</b>			
Cash Paid For Interest	\$ 216,420	\$ -	\$ 216,420
Cash Paid For Income Taxes	\$ 557	\$ 7,731	\$ 46,531
<b>Non-Cash Financing Activities:</b>			
Issuances of Common Stock as Commissions on Sales of Common Stock	\$ -	\$ -	\$ 440,495
Issuance of common stock and warrants as payment of financing costs	\$ 3,665,199	\$ 270,000	\$ 4,187,740
Change in Fair Value of Derivative Instrument	\$ 33,433	\$ -	\$ 33,433
Issuance of Common Stock and Options/warrants as Payment for Expenses	\$ -	\$ -	\$ 192,647
Issuance of Common Stock as Payment for Mining, Milling and Other Property and Equipment	\$ -	\$ -	\$ 4,500
Exercise of Options as Payment of Accounts Payable	\$ -	\$ -	\$ 36,000

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

CAPITAL GOLD CORPORATION  
(A DEVELOPMENT STAGE ENTERPRISE)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2007

NOTE 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Capital Gold Corporation ("Capital Gold", "the Company", "we" or "us") and its subsidiaries, which are wholly and majority owned as well as the accounts within Caborca Industrial S.A. de C.V. ("Caborca Industriale"), a Mexican corporation 100% owned by two of the Company's officers and directors for mining support services. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at cost. This entity is considered a variable interest entity under accounting rules provided under FIN 46, "Consolidation of Variable Interest Entities".

Capital Gold 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. The Company owns rights to property located in the State of Sonora, Mexico and the California Mining District, Lake County, Colorado and is in the process of completing construction and development of an open-pit gold mining operation to mine two of its Mexican concessions. All of the Company's mining activities are now being performed in Mexico. The Company is a development stage enterprise.

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

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

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB.



Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company's management, the accompanying condensed consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated financial position and results of operations and cash flows for the periods presented.

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

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company is a development stage enterprise and has recurring losses from operations and operating cash constraints that raise substantial doubt about the Company's ability to continue as a going concern. These statements should be read in conjunction with the Company's consolidated financial statements included within its Form 10-KSB for the fiscal year ended July 31, 2006, as filed with the SEC on November 1, 2006.

#### NOTE 2 - Equity Based Compensation

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

Such options and warrants may be exercisable at varying exercise prices currently ranging from \$0.22 to \$0.41 per share of common stock with certain of these grants becoming exercisable immediately upon grant subject to stockholder approval. Certain grants vest for a period of five months to two years (generally concurrent with service periods for grants to employees/consultants - See Note 15 - Employee and Consulting Agreements). Certain grants contain a provision whereby they become immediately exercisable upon a change of control.

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

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

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the six months ended January 31, 2007 and 2006, were \$0.32 and \$0, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Six Months ended January 31,		
	2007	2006	
Expected volatility	66%	-	-
Risk-free interest rate	6.25%	-	-
Expected dividend yield	-	-	-
Expected life	2.0 years	-	-



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

	Number of Options	Weighted Average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2005	4,711,363	\$ .30	0.30	\$ 1,277,977
Options granted	4,611,363	.13	-	-
Options exercised	(590,909)	.05	-	-
Options expired	(3,161,363)	.05	-	-
Warrants and options outstanding at July 31, 2006	5,570,454	\$ .16	1.17	\$ 702,250
Options granted	550,000	\$ .34	-	-
Options exercised	(2,870,454)	\$ .05	-	-
Options expired	-	-	-	-
Warrants and options outstanding at January 31, 2007	3,250,000	\$ .29	1.26	\$ 67,950
Warrants and options exercisable at January 31, 2007	1,250,000	\$ .22	0.42	\$ 48,750

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

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at August 1, 2006	-	-	-	\$ -
Options granted	150,000	\$ .32	1.42	16,500
Unvested Options outstanding at January 31, 2007	150,000	\$ .32	1.42	\$ 16,500

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

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2005	31,902,004	\$ .30	1.13	\$ 3,430,120
Options granted	6,844,000	.28	-	-
Options exercised	(12,835,004)	.29	-	-
Options expired	(350,000)	.10	-	-
Warrants and options outstanding at July 31, 2006	25,561,000	\$ .29	1.33	\$ 1,939,530
Options granted	16,682,542	\$ .33	-	-
Options exercised	(16,912,000)	.29	-	-
Options expired	_(1,275,000)	.30	-	-
Warrants and options outstanding at January 31, 2007	24,256,542	\$ .32	1.70	\$ 355,402
Warrants and options exercisable at January 31, 2007	23,806,542	\$ .32	1.74	\$ 356,402

Prior to the adoption of FAS 123R, the Company applied the intrinsic value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation an interpretation of APB Opinion No. 25* issued in March 2000 (“FIN 44”), to account for its fixed plan stock options. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*. This Statement amended FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation.

The following table illustrates the effect on the net loss and net loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based compensation prior to February 1, 2006:

	Year Ended July 31, 2006
Net loss	\$ (4,804,692)
Add stock-based employee compensation expense (recovery) included in reported net income (loss)	-
Deduct total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(773,263)
Pro forma net loss	\$ (5,577,955)
Pro forma net loss per common share (Basic and diluted)	\$ (.05)
Weighted average common shares outstanding: Basic and diluted	112,204,471
Net loss per common share (Basic and Diluted), as reported	\$ (.04)

#### NOTE 3 - Marketable Securities

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

	January 31, 2007
Marketable equity securities, at cost	\$ 50,000
Marketable equity securities, at fair value	\$ 85,000

(See Notes 8 & 10)

#### NOTE 4 - Property and Equipment

Property and Equipment consist of the following at January 31, 2007:

Construction in progress	\$ 11,119,047
Water Well	141,242
Building	116,922
Equipment	411,273
Vehicle	132,134
Improvements	15,797
Office Equipment	17,874
Furniture	2,354
Total	11,956,643
Less: accumulated depreciation	(61,855)
Property and equipment, net	\$ 11,894,788

The Company has open purchase orders on material and equipment regarding its El Chanate Project amounting to approximately \$2,305,000 as of January 31, 2007, and had paid approximately \$1,868,000 on these commitments.

Depreciation expense for the six months ended January 31, 2007 and 2006 was \$21,638 and \$12,272, respectively.

NOTE 5 - Intangible Assets

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

Repurchase of Net Profits Interest from FG	\$ 500,000
Investment in Right of Way	18,620
Less: accumulated amortization of Right of Way	(6,620)
<b>Intangible assets, net</b>	<b>\$ 512,000</b>

On September 13, 2006, the Company repurchased the 5% net profits interest formerly held by Grupo Minera FG ("FG"), and subsequently acquired by Daniel Gutierrez Cibrian, with respect to the operations at the El Chanate mine. That net profits interest had originally been granted to FG in connection with the April 2004 termination of the joint venture agreement between FG and MSR, Capital Gold's wholly owned Mexican subsidiary. MSR also received a right of first refusal to carry out the works and render construction services required to effectuate the El Chanate Project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services. FG has assigned or otherwise transferred to MSR all permits, licenses, consents and authorizations (collectively, "authorizations") for which FG had obtained in its name in connection with the development of the El Chanate Project to the extent that the authorizations are assignable. To the extent that the authorizations are not assignable or otherwise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued or re-granted in MSR's name. The foregoing has been completed. The purchase price for the buyback of the net profits interest was \$500,000, and was structured as part of the project costs financed by the recently completed loan agreement with Standard Bank, Plc. (See Note 13). Mr. Gutierrez will retain a 1% net profits interest in MSR, payable only after a total \$US 20 million in net profits has been generated from operations at El Chanate. The Company recorded this transaction on its balance sheet as an intangible asset under guidance provided by FAS 142 - *Goodwill and Other Intangible Assets* to be amortized over the period of which the asset is expected to contribute directly or indirectly to the Company's cash flow.

Amortization expense for the six months ending January 31, 2007 and 2006 was \$1,800 and \$2,065, respectively.

NOTE 6 - Mining Reclamation Bonds

These represent certificates of deposit that have been deposited as security for Mining Reclamation Bonds in Colorado. They bear interest at rates varying from 4.35% to 5.01% annually and mature at various dates through 2010.

NOTE 7 - Mining Concessions

Mining concessions consists of the following:

El Charro	\$ 25,324
El Chanate	44,780
<b>Total</b>	<b>\$ 70,104</b>

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

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

#### NOTE 8 - Loans Receivable - Affiliate

Loans receivable - affiliate consist of expense reimbursements due from a publicly-owned corporation in which the Company has an investment. The Company's president and chairman of the board of directors is an officer and director of that corporation. These loans are non-interest bearing and due on demand (see Note 3 & 11).

#### NOTE 9 - Other Investments

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

#### NOTE 10 - Other Comprehensive Income (Loss)-Supplemental Non-Cash Investing Activities

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

Balance - July 31, 2005	\$ 157,714
Equity Adjustments from Foreign Currency Translation	48,779
Unrealized Gains (loss) on Marketable Securities	(60,000)
Balance - July 31, 2006	146,493
Change in fair value of derivative instrument	(33,433)
Equity Adjustments from Foreign Currency Translation	162,255
Unrealized Gains (loss) on Marketable Securities	(5,000)
Balance - January 31, 2007	\$ 270,315

#### NOTE 11 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately \$4,500 and \$5,850 in expense reimbursements including office rent from this entity for the six months ended January 31, 2007 and 2006, respectively (see Notes 3 and 8).

The Company utilizes a Mexican Corporation 100% owned by two officers/Directors and stockholders of the Company for mining support services. These services include but are not limited to the payment of mining salaries and related costs. The Mexican Corporation bills the Company for these services at cost. Mining expenses charged by the Mexican Corporation and reported on the statement of operations amounted to approximately \$181,000 and \$50,000 for the six months ended January 31, 2007 and 2006, respectively.

During the six months ended January 31, 2007 and 2006, the Company paid its V.P. Development and Director \$0 and \$33,000, respectively, for professional geologist and management services rendered to the Company. This individual also earned wages of \$60,000 during the six months ended January 31, 2007. During the six months ended January 31, 2007 and 2006, the Company paid its V.P. Exploration and Director consulting fees of \$0 and \$33,000, respectively. In addition, this individual earned wages of \$60,000 during the six months ended January 31, 2007. During the six

months ended January 31, 2007 and 2006, we paid a director legal and consulting fees of \$12,000 and \$0, respectively.

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The Company's V.P. Development and Director has, since 1995, been a senior consultant in the Minerals Advisory Group LLC, Tucson, Arizona, an entity that provided \$3,000 of services to the Company for the six months ended January 31, 2007.

In January 2006, the Company extended the following stock options through January 3, 2007, all of which are exercisable at \$0.05 per share: Chief Executive Officer and Director - 1,250,000 shares; Director - 500,000 shares; V.P. Investor Relations and Director - 327,727 shares; V.P. Development and Director - 500,000 shares; and V.P. Mine Development - 25,000 shares. There was not a material increase in the intrinsic value of these options at the date of modification as compared to the intrinsic value of the original issuance of these stock options on the applicable measurement date. All of these options were exercised prior to their extended expiration.

#### NOTE 12 - Stockholders' Equity

##### Common Stock

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

During the year ended July 31, 2006, the Company issued 4,825,913 shares of stock upon the exercising of common stock purchase warrants and options for net proceeds of \$741,820, including 200,000 and 300,000 shares to its CEO and V.P. Mine Development for net proceeds of \$10,000 and \$15,000, respectively. The Company has also issued 1,000,000 shares of Common Stock (See Note 13) in connection with receiving a commitment letter from Standard Bank informing the Company of its approval for providing a \$12 million (now \$12.5 million) senior financing facility.

The Company closed two private placements in 2006 pursuant to which the Company issued an aggregate of 21,240,000 units, each unit consisting of one share of the Company's common stock and a warrant to purchase ¼ of a share of the Company's common stock for net proceeds of \$4,999,500, net of commissions of \$310,500. The Company also received net proceeds of \$2,373,600, net of commissions of \$206,430, from the exercising of 8,600,000 warrants in February 2006. The Warrant issued to each purchaser is exercisable for one share of the Company's common stock, at an exercise price equal to \$0.30 per share. Each Warrant has a term of eighteen months and is fully exercisable from the date of issuance. The Company issued to the placement agent in one of the placements eighteen month warrants to purchase up to 934,000 shares of the Company's common stock at an exercise price of \$0.25 per share. Such placement agent warrants are valued at approximately \$189,000 using the Black-Scholes option pricing method.

The Company issued 1,150,000 shares of common stock and 12,600,000 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 1,150,000 shares of common stock and 12,600,000 warrants as deferred financing costs of approximately \$351,000 and \$3,314,000, respectively, as a reduction of stockholders' equity on the Company's balance sheet. The issuance of 1,150,000 shares was recorded at the fair market value of the Company's common stock at the closing date or \$0.305 per share. The warrants were valued at approximately \$3,314,000 using the Black-Scholes option pricing model and were reflected as deferred financing costs as a reduction of stockholders' equity on the Company's balance sheet (See Note 13). The balance of deferred financing costs net of amortization as of January 31, 2007, as a reduction of stockholders' equity, was approximately \$3,903,000. Amortization expense for the six months ended January 31, 2007, was \$284,000.

The Company closed two private placements in January 2007 pursuant to which it issued an aggregate of 12,561,667 units, each unit consisting of one share of its common stock and a warrant to purchase ¼ of a share of its common stock for proceeds of approximately \$3,486,000, net of commissions of approximately \$283,000. The Company also received proceeds of approximately \$928,000 from the exercising of an aggregate of 6,142,454 of warrants issued in

past private placements. The Warrant issued to each purchaser in the January 2007 placements is exercisable for one share of common stock, at an exercise price equal to \$0.40 per share. Each Warrant has a term of eighteen months and is fully exercisable from the date of issuance. The Company issued to the placement agents eighteen month warrants to purchase up to an aggregate of 942,125 shares of common stock at an exercise price of \$0.30 per share. Such placement agent warrants are valued at approximately \$142,000 using the Black-Scholes option pricing method.

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### Recapitalization

The Board of Directors recommended an amendment to the Company's Certificate of Incorporation to increase the Company's authorized shares of capital stock from 200,000,000 to 250,000,000 shares. This amendment was approved by the stockholders on February 21, 2007 and the Company effected the authorized share increase on February 26, 2007.

### Warrants and Options

On November 30, 2006, the Company's board of directors granted 100,000 common stock options to each of John Postle, Ian A. Shaw and Mark T. Nesbitt, the Company's independent directors. The options are to purchase shares of the Company's common stock at an exercise price of \$0.33 per share (the closing price of our common stock on that date) for a period of two years. The options could not be exercised unless and until they were been approved by the Company's stockholders. The Company utilized the Black-Scholes method to fair value the 300,000 options received by the directors. The Company recorded approximately \$40,000 as stock based compensation expense in the fiscal quarter ended January 31, 2007.

On December 13, 2006, the Company issued two year options to purchase our common stock at an exercise price of \$0.36 per share to its Chief Operating Officer, Chief Financial Officer and the Company's Canadian counsel. These options are for the purchase of 250,000 shares, 100,000 shares and 100,000 shares, respectively. These options could not be exercised unless and until they were approved by the Toronto Stock Exchange and Stockholders. The Company utilized the Black-Scholes method to fair value the 450,000 options received by these individuals. The Company recorded approximately \$61,000 as stock based compensation expense in the fiscal quarter ended January 31, 2007.

### Warrant Re-pricing

In December 2005, the Board of Directors ratified the temporary re-pricing of certain warrants that were issued in connection with the February 2005 private placement from \$0.30 per share to \$0.20 per share exercise price. In addition, warrants issued to the placement agent were also re-priced from \$0.25 per share to \$0.20 per share exercise price. These re-pricings were in effect for the period November 28, 2005 through January 31, 2006.

### 2006 Equity Incentive Plan

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

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

The Plan is administered by the Company's Board of Directors or a committee thereof. The Plan provides for Awards to be made to such of the Company's employees, directors and consultants and its affiliates as the Board may select. As of January 31, 2007, 450,000 options have been granted under the Plan to two of the Company's officers and its Canadian counsel.

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.

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The exercise price of an option must be 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 Exchange Act 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 TSX or any stock exchange upon which the common stock is listed.

#### Rights Agreement

On August 14, 2006, the Board of Directors (the "Board") of the Company declared a cash dividend (the "Dividend") of one Series B common share purchase right (a "Right") for each outstanding share of common stock, par value \$.0001 per share. Each Right represented the right to purchase one one-thousandth of Series B Share. The Dividend was payable to holders of record on August 14, 2006. In connection with the Dividend, the Company entered into a Rights Agreement with American Stock Transfer & Trust Company as Rights Agent (the "Rights Agreement"), specifying the terms of the Rights. The Rights would impose a significant penalty upon any person or group that acquires beneficial ownership of 20% or more of the Company's outstanding common stock without the prior approval of the Board. The Rights Agreement provided an exemption for any person who was, as of August 15, 2006, the beneficial owner of 20% or more of the Company's outstanding common stock, so long as such person did not, subject to certain exceptions, acquire additional shares of the Company's common stock after that date. The Rights Agreement would not have interfered with any merger or other business combination approved by the Board. By its terms, The Rights Agreement terminated if it was not approved by the Company's stockholders on or before February 4, 2007. This did not occur and, accordingly, it terminated.

#### NOTE 13 - Project Finance Facility

On August 15, 2006, the Company entered into a credit facility (the "Credit Facility") involving its wholly-owned subsidiaries MSR and Oro, as borrowers, us, as guarantor, and Standard Bank plc ("Standard Bank"), as the lender and the offshore account holder. Under the Credit Facility, MSR and Oro have agreed to borrow money in an aggregate principal amount of up to US\$12.5 million (the "Loan") for the purpose of constructing, developing and operating our El Chanate Project (the "Mine"). The Company is guaranteeing the repayment of the loan and the performance of the obligations under the Credit Facility. The Loan is scheduled to be repaid in fourteen quarterly payments with the first principal payment due after certain Mine start-up production and performance criteria are satisfied, which the Company believes it will occur in the first calendar quarter of 2008. The Loan bears interest at LIBOR plus 4.00%, with LIBOR interest periods of 1, 2, 3 or 6 months and with interest payable at the end of the applicable interest period.

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

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The Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro pursuant to the terms of a Mortgage Agreement, a Non-Possessory Pledge Agreement, an Account Pledge Agreement and certain other agreements entered into in Mexico (the "Mexican Collateral Documents"). As additional collateral for the Loan, the Company, together with its subsidiary, Leadville Mining & Milling Holding Corporation, have pledged all of its ownership interest in MSR and Oro. In addition to these collateral arrangements, MSR and Oro are required to deposit all proceeds of the Loan and all cash proceeds received from operations and other sources in an offshore, controlled account with Standard Bank. Absent a default under the loan documents, MSR and Oro may use the funds from this account for specific purposes such as approved project costs and operating costs.

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

In March 2006, The Company entered into a gold price protection arrangement with Standard Bank to protect it against future fluctuations in the price of gold. The Company agreed to a series of gold forward sales and call option purchases in anticipation of entering into the Credit Facility. Under the price protection agreement, the Company has 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 will also purchase call options from Standard Bank on a quarterly basis during this same period covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. While the period of the derivative contracts has commenced, the Company does not anticipate any material adverse effect from the fact that it has not commenced to sell gold because the price of gold is substantially above \$535 per ounce. The Company paid a fee to Standard Bank in connection with the price protection agreement. In addition, the Company provided aggregate cash collateral of approximately \$4.3 million to secure its obligations under this agreement. The cash collateral was returned to the Company after the Credit Facility was executed in August 2006.

As of January 31, 2007, the Company has drawn down a total of \$8,750,000 on the Credit Facility.

On October 11, 2006, prior to the Company's initial draw on the Credit Facility, the Company entered into interest rate swap agreements in accordance with the terms of the Credit Facility, which requires that the Company hedge at least 50 percent of our outstanding debt under this facility. The agreements entered into cover \$9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375,000, but over different time horizons. The first covered the six months commencing October 11, 2006 and a termination date of March 31, 2007 and the second covering the period from March 30, 2007 with a termination date of 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 (See Note 16).



NOTE 14 - Mining and Engineering 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"). The Mining Contract becomes effective if and when MSR sends the Contractor a formal "Notice of Award".

On August 2, 2006, the Company amended the November 24, 2005 Mining Contract between its subsidiary, MSR, and Sinergia. Pursuant to the amendment, MSR's right to deliver the Notice to Proceed to Sinergia is extended to November 1, 2006. Provided that this Notice is delivered to Sinergia on or before that date, with a specified date of commencement of the Work (as defined in the contract) not later than February 1, 2007, the mining rates set forth in the Mining Contract will still apply; subject to adjustment for the rate of inflation between September 23, 2005 and the date of commencement of the work. As consideration for these changes, the Company paid Sinergia \$200,000 of the requisite advance payment discussed below. On November 1, 2006, MSR delivered the Notice of Award specifying January 25, 2007, as the date of commencement of Work. Based on a revised crushing and stacking plan and since MSR is manufacturing the leach pad overliner material both Sinergia and MSR have mutually agreed to delay mining until the end of March. This satisfies the needs of both parties. The conditions of the contract remain the same and there will be no additional payments for the rescheduling .

Pursuant to the Mining Contract, Sinergia, using its own equipment, will generally perform all of the mining work (other than crushing) at the El Chanate Project for the life of the mine. MSR delivered to the Contractor a mobilization payment of \$70,000 and the advance payment of \$520,000. The advance payments are recoverable by MSR out of 100% of subsequent payments due to Sinergia under the Mining Contract. Pursuant to the Mining Contract, upon termination, Sinergia would be obligated to repay any portion of the advance payment that had not yet been recouped. 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 our former joint venture partner.

In June 2006, the Company's Mexican operating subsidiary retained the contracting services of Mexican subsidiary of M3 Engineering & Technology Corporation ("M3M") to provide EPCM (engineering procurement construction management) services. M3M supervises the construction and integration of the various components necessary to commence production at the El Chanate Project. The contracted services shall not exceed \$1,200,000 and the contract is based on the EPCM services to be provided by M3M. As of January 31, 2007, the Company has incurred approximately \$575,000 pursuant to this contract.

NOTE 15 - Employee and Consulting Agreements

The Company entered into employment agreements, effective July 31, 2006, with the following executive officers: Gifford A. Dieterle, President and Treasurer, Roger A. Newell, Vice President of Development, Jack V. Everett, Vice President of Exploration, and Jeffrey W. Pritchard, Vice President of Investor Relations. On December 5, 2006, effective January 1, 2007, The Company entered into an employment agreement with J. Scott Hazlitt, Vice President of Mine Development.

The agreements run for a period of three years and automatically renew for successive one-year periods unless the Company or the executive provides the other party with written notice of their intent not to renew at least 30 days prior to the expiration of the then current employment period.

Mr. Dieterle is entitled to a base annual salary of at least \$180,000, Mr. Hazlitt is entitled to a base annual salary of at least \$105,000 and each of the other executives is entitled to a base annual salary of at least \$120,000. Each executive is entitled to a bonus or salary increase in the sole discretion of the board of directors. In addition, Messrs. Dieterle,

Newell, Everett and Pritchard each received two year options to purchase an aggregate of 250,000 shares of the Company's common stock at an exercise price of \$0.32 per share (the closing price on July 31, 2006).

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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 our 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, 2009 (December 31, 2010 for Mr. Hazlitt) and extends 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 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.

On March 1, 2006, the Company entered into a consulting agreement with Christopher Chipman pursuant to which the Company has retained Mr. Chipman as its Chief Financial Officer. Pursuant to the Agreement with Mr. Chipman, Mr. Chipman devotes approximately 50% of his time to the Company's business. He receives a monthly fee of \$7,500 and he was issued two year options to purchase an aggregate of 50,000 shares of the Company's common stock at an exercise price of \$.34 per share. The options will vest at the rate of 10,000 shares per month during the initial period of his engagement. Notwithstanding the foregoing, the options are not exercisable unless and until the issuance of the options is approved by the Company's stockholders. The agreement runs for an initial one year period, and is renewable thereafter for an additional year. The Company can terminate the agreement at any time; however, if the Company terminates the agreement other than for cause (as defined in the agreement), the Company is required to pay

Mr. Chipman the fees otherwise due and payable to him through the last day of the then current term of the Agreement or six months from such termination, which ever is shorter. Mr. Chipman can terminate the Agreement on 30 days notice. On September 1, 2006, the Company amended its consulting agreement with its Chief Financial Officer. Pursuant to the agreement, the Company's Chief Financial Officer devotes approximately 50% of his time to our business. He receives a monthly fee of \$10,000. The agreement runs for an initial one year period, and is renewable thereafter for an additional year. He can terminate the Agreement on 60 days notice. In conjunction with the amended consulting agreement, the Company entered into a change of control agreement similar to the agreements entered into with other executive officers; except that the Company's CFO agreement renews annually and his benefits are based upon one times his base annual fee.

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On May 12, 2006, the Company entered into an employment agreement with John Brownlie, pursuant to which Mr. Brownlie serves as Vice President Operations. Mr. Brownlie receives a base annual salary of \$150,000 and is entitled to annual bonuses. Upon his employment, he received options to purchase an aggregate of 200,000 shares of the Company's common stock at an exercise price of \$.32 per share. 50,000 options vested immediately and the balance vest upon the Company achieving "Economic Completion" as that term is defined in the Standard Bank Credit Facility (when the Company has commenced mining operations and has been operating at anticipated capacity for 60 to 90 days). The term of the options is two years from the date of vesting. The agreement runs for an initial two year period, 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. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by the Company that is not timely cured, upon 30 days notice. In the event that the Company terminates him without cause or he terminates due to the Company's breach, he will be entitled to certain severance payments. The Company utilized the Black-Scholes method to fair value the 200,000 options received by Mr. Brownlie. The Company recorded approximately \$70,000 as deferred compensation expense as of the date of the agreement and recorded the vested portion or \$17,500 as stock based compensation expense for the year ended July 31, 2006.

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

In March 2006, the Company entered into two identically structured derivative contracts with Standard Bank (See Note 13). Each derivative consisted of a series of forward sales of gold and a purchase gold cap. The Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of \$500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to a purchase gold cap on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of \$535 per ounce. While the period of the derivative contracts has commenced, the Company does not anticipate any material adverse effect from the fact that it has not commenced to sell gold because the price of gold is substantially above \$535 per ounce. Under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), these contracts must be carried on the balance sheet at their fair value, with changes to the fair value of these contracts reflected as Other Income or Expense. These contracts were not designated as hedging derivatives; and therefore, special hedge accounting does not apply.

The first derivative was entered into on March 1, 2006 for a premium of \$550,000; and the second was entered into on March 30, 2006 for a premium of \$250,000. The gold price rose sharply during the period March 1, 2006 through July 31, 2006 and was the primary reason for the decrease in premium on the derivative contracts. As of January 31, 2007, the carrying value of this derivative liability was approximately \$344,000. The change in fair value on these derivative contracts was approximately \$528,000 for the six months ended January 31, 2007, and decreased as a result of the increases in gold prices during this period. This change in fair value was recorded as an other expense on the Company's income statement.

On October 11, 2006, prior to the Company's initial draw on the Credit Facility, the Company entered into interest rate swap agreements in accordance with the terms of the Credit Facility, which requires that the Company hedge at least 50 percent of the Company's outstanding debt under this facility. The agreements entered into cover \$9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of \$9,375,000, but over different time horizons. The first covered the six months commencing October 11, 2006 and a termination date of March 31, 2007 and the second covering the period from March 30, 2007 and a termination date of December 31, 2010. The Company intends to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as the Company deems appropriate. However, any use of interest rate derivatives will be restricted to use for risk management purposes.

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

The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidentally with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness. The amount expected to be reclassified from OCI to earnings during the 12 months ending July 31 2007 from these two swaps was determined to be immaterial. As of January 31, 2007, the Company recorded \$33,433 as a derivative liability with the offset going to other comprehensive income.

The Company is exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but the Company does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined guidelines, and monitor the market position with each counterparty as required by SFAS 133.

#### NOTE 17 - Deposits

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

	January 31, 2007
Advance payment on Mining Contract to Sinergia	\$ 520,000
Sinergia Mobilization Payment	70,000
Other	8,812
Total Deposits	\$ 598,812

#### NOTE 18 - Other Current Assets

Other current assets consist of the following:

	January 31, 2007
Value added tax to be refunded	\$ 568,490
Other	42,077
Total Other Current Assets	\$ 610,567

#### NOTE 18 - Subsequent Events

On February 1, 2007, the Company completed an additional draw down on its credit facility from Standard Bank receiving proceeds of \$3,250,000 increasing the total outstanding balance on the Credit Facility to \$12,000,000. The Company is using and anticipates using these proceeds for its El Chanate Project.



On February 5, 2007, Dave Loder, the General Manager of our El Chanate Project, resigned for personal reasons unrelated to his employment with the Company. We have hired, on a temporary basis, an experienced replacement and are actively looking for a permanent replacement. We do not believe, that Mr. Loder's departure will have a material adverse affect on our business.

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On February 7, 2007, Robert Roningen resigned as our Secretary and, on February 9, 2007, John Brownlie, our Vice President of Operations, was appointed Chief Operating Officer and Jeffrey W. Pritchard, our Vice President of Investor Relations, was appointed Secretary. Mr. Brownlie's appointment as our Chief Operating Officer did not result in any changes to his compensation arrangement under his employment agreement with the Company.

In February 2007, the Company received proceeds of approximately \$4,242,000 from the exercising of an aggregate of 14,140,000 of warrants issued in past private placements.

On February 21, 2007, the Company's stockholders, among other things, approved the 2006 Equity Incentive Plan, an amendment to the Company's Certificate of Incorporation increasing the number of authorized shares of Common Stock from 200,000,000 to 250,000,000 and approved the issuance of an aggregate of 2,450,000 outstanding options (including the options issued to the Company's executive officers and directors - See Note 12) that required stockholder approval pursuant to the rules of the Toronto Stock Exchange.

On March 2, 2007, MSR, the Company's wholly-owned subsidiary entered into a sales contract with Degussa Mexico S.A. de C.V. to supply sodium cyanide solid bricks for use in the heap leach process with the El Chanate Project. The contract period initiates April 1, 2007 and extends through March 31, 2010 and estimates total yearly requirements at 1,000 metric tons plus or minus 20%. The total minimum annual commitment associated with this contract is anticipated to be between \$1,500,000 in year one and two and \$1,600,000 in year three.

#### NOTE 19 - New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("FAS 155") - an amendment of FASB Statements No. 133 and 140. FAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), and SFAS No. 140 ("FAS 140"), "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", to permit fair value re-measurement of any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation. Additionally, FAS 155 seeks to clarify which interest-only strips and principal-only strips are not subject to the requirements of FAS 133 and to clarify that concentrations of credit risk in the form of subordination are not embedded derivatives. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Management does not believe the adoption of this standard will have a material impact on the financial condition or the results of operations of the Company.

On July 13, 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The requirements are effective for fiscal years beginning after December 15, 2006. The purpose of FIN 48 is to clarify and set forth consistent rules for accounting for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". The cumulative effect of applying the provisions of this interpretation are required to be reported separately as an adjustment to the opening balance of retained earnings in the year of adoption. Management does not believe the adoption of this standard will have a material impact on the financial condition or the results of operations of the Company.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." This new standard provides guidance for using fair value to measure assets and liabilities. The FASB believes the standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. Statement 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances.

Currently, over 40 accounting standards within GAAP require (or permit) entities to measure assets and liabilities at fair value. Prior to Statement 157, the methods for measuring fair value were diverse and inconsistent, especially for items that are not actively traded. The standard clarifies that for items that are not actively traded, such as certain kinds of derivatives, fair value should reflect the price in a transaction with a market participant, including an adjustment for risk, not just the company's market-to-market model value. Statement 157 also requires expanded disclosure of the effect on earnings for items measured using unobservable data.

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Under Statement 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, Statement 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

The provisions of Statement 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. Management does not believe the adoption of this standard will have a material impact in the financial condition or results of operations of the Company.

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

### **Cautionary Statement on Forward-Looking Statements**

Certain statements in this report constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Certain, but not necessarily all, of such forward-looking statements can be identified by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact, included in this report regarding our financial position, business and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding exploration, costs, grade, production and recovery rates, permitting, financing needs and the availability of financing on acceptable terms or other sources of funding are all forward-looking in nature.

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

### **Results of Operations**

#### **General**

##### **Sonora, Mexico**

Through a wholly-owned subsidiary and an affiliate, Capital Gold Corporation owns 100% of 16 mining concessions located in the Municipality of Altar, State of Sonora, Republic of Mexico totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles). We are in the process of completing construction and development of an open-pit gold mining operation to mine two of these concessions. We sometimes refer to the planned operations on these two concessions as the El Chanate Project. We anticipate that mining operations will commence in late March 2007.

Construction activities at the El Chanate Project commenced in August 2006. Engineering Procurement and Construction Management activities commenced June 1, 2006. Also in August 2006, we completed debt financing for the construction of the El Chanate mine. We anticipate revenues from mining operations will commence by the end of the second calendar quarter 2007. Please see “*Current Status of El Chanate*” below for a discussion of the current status of our El Chanate project.

We believe that surface gold mine and facility at El Chanate will be capable of producing about 2.6 million metric tons per year of ore from which we anticipate recovering about 44,000 to 48,000 ounces of gold per year, over a seven year mine life. We are following the updated feasibility study (the “2005 Study”) for the El Chanate Project prepared by M3 Engineering of Tucson, Arizona which was completed in October 2005, as further updated by an August 2006 technical report from SRK Consulting, Denver, Colorado. The original feasibility study (the “2003 Study”) was completed by M3 Engineering in August 2003. Since completion of the 2003 Study, both the price of gold and production costs have increased and equipment choices have broadened from those identified in the 2003 Study.

The 2005 Study includes the following changes from the 2003 Study:

- an increase in the mine life from five to six years,
- an increase in the base gold price from \$325/oz to \$375/oz,

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- use of a mining contractor,
- revised mining, processing and support costs,
- stockpiling of low grade material for possible processing in year six, if justified by gold prices at that time,
- a reduced size for the waste rock dump and revised design of reclamation waste dump slopes,
- a revised process of equipment selection and
- evaluation of the newly acquired water well for processing the ore.

In view of a significant rise in the gold price, in June 2006, we commissioned SRK Consulting, Denver, Colorado, to prepare an updated Canadian Securities Administration National Instrument 43-101 compliant technical report on our El Chanate Project. SRK completed this technical report in August 2006 (the "2006 Update"). The 2006 Update provided the following updated information from the 2005 Study:

- an 18% increase in the proven mineral reserve tonnage,
- a 59% increase in the probable mineral reserve tonnage
- an increase in mine life from six to seven years,
- an increase in the base gold price from \$375/oz to \$450/oz and
- Stockpiling of low grade material for possible processing in year seven, if justified by gold prices at that time.

Pursuant to the 2005 Study, as updated by the 2006 Update using a \$450 per ounce gold price, our estimated mine life is seven years and the ore reserve is 490,000 ounces of gold present in the ground. Of this, we anticipate recovering approximately 332,000 ounces of gold over the seven year life of the mine. The targeted cash cost (which includes mining, processing and on-property general and administrative expenses) per the 2005 Study is \$259 per ounce. We believe that cash costs may decrease as the production rate increases. Total costs (which include cash costs as well as off-property costs such as property taxes, royalties, refining, transportation and insurance costs and exclude financing costs) will vary depending upon the price of gold (due to the nature of underlying payment obligations to the original owner of the property). Total costs are estimated in the 2005 Study to be \$339 per ounce at a gold price of \$417 per ounce (the three year average gold price as of the date of that study). We will be working on measures to attempt to reduce costs going forward. Ore reserves and production rates are based on a gold price of \$450 per ounce, which is the Base Case in the 2006 Update. During 2006, the spot price for gold on the London Exchange has fluctuated between \$524.75 and \$725.00 per ounce. The 2005 Study contains the same mining rate as the 2003 Study of 7,500 metric tonnes per day of ore. It should be noted that, during the preliminary engineering phase of the project it was decided to design the crushing screening and ore stacking system with the capability of processing 10,000 tonnes per day of ore. This will make allowances for any possible increase in production and for operational flexibility. It was found that the major components in the feasibility study would be capable of handling the increase in tonnage. Design changes were made where necessary to accommodate the increased tonnage. The 2005 Study takes into consideration a more modern crushing system than the one contemplated in the 2003 Study. The crushing system referred to in the 2005 Study is a new system, that, we believe will provide more efficient processing capabilities than the used equipment referred to in the 2003 Study. In addition, the 2005 Study assumes a contractor will mine the ore and haul it to the crushers. In the 2003 Study, we planned to perform these functions. We have engaged a mining contractor to perform these services.

The 2005 Study assumes a mining production rate of 2.6 million tonnes of ore per year or 7,500 tonnes per day. The processing plant will operate 365 days per year. The processing plan for this open pit heap leach gold project calls for crushing the ore to 100% minus 3/8 inch. Carbon columns will be used to recover the gold.

The following Summary is extracted from the 2005 Study, as updated by the 2006 Update. 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 489,952 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 331,560 ounces, or approximately 68% of the contained gold. The gold recovery rate is expected to average approximately 68% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 73% to 48%. Oxidized and sandstone ore types may have recoveries of about 73%; fault zone ore type recoveries may be about 64%; and siltstone ore types recoveries may be about 48%.

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El Chanate Project  
**Production Summary**

	Metric	U.S.
<b>Materials</b>		
<b>Reserves</b>		
Proven	11.7 Million Tonnes @ 0.811 g/t*	12.9 Million Tons @ 0.024 opt*
Probable	<u>8.2 Million Tonnes @ 0.705 g/t*</u>	<u>9.0 Million Tons @ 0.021 opt*</u>
Total Reserves	19.9 Million Tonnes @ 0.767 g/t*	21.9 Million Tons @ 0.022 opt*
Other Mineralized Materials	0 Million Tonnes	0 Million Tons
Waste	<u>19.9 Million Tonnes</u>	<u>21.9 Million Tons</u>
Total	39.7 Million Tonnes	43.8 Million tons
Contained Gold	15.24 Million grams	489,952 Oz
<b>Production</b>		
Ore Crushed	2.6 Million Tonnes /Year 7,500 Mt/d*	2.87 Million Tons/Year 8,267 t/d
Operating Days/Year	365 Days per year	365 Days per year
Gold Plant Average Recovery	67.7 %	67.7 %
Average Annual Production	1.35 Million grams	43,414 Oz
Total Gold Produced	10.31 Million grams	331,560 Oz

\* "g/t" means grams per metric tonne, "Mt/d means metric tonnes per day and "opt" means ounces per ton.

The reserve estimates are based on a recovered gold cutoff grade of 0.20 grams per metric tonne as described below.

In the mineral resource block model developed, with blocks 10m (meters) x 10m x 5m high, Measured and Indicated resources (corresponding to Proven and Probable reserves respectively when within the pit design) were classified in accordance with the following scheme:

- Blocks with 4 or more drill holes within a search radius of 40m x 40m x 25m and inside suitable geological zones were classified as Measured (corresponding to Proven);
- Blocks with 3 or more holes within a search radius of 75m x 75m x 50m and inside suitable geological zones were classified as Indicated (corresponding to Probable);
- Blocks with 1 or 2 holes within a search radius of 75m x 75m x 50m and inside suitable geological zones were classified as Inferred (and which was classed as waste material in the mining reserves estimate);
- Blocks outside the above search radii or outside suitable geological zones were not assigned a classification.

The proven and probable reserve estimates are based on a recovered gold internal cutoff grade of 0.20 grams/tonne. (A constant recovered gold cutoff grade was used for reserves calculation as the head gold grade cutoff varies with the different ore types due to their variable gold recoveries.) The internal (in-pit) cutoff grade was used for reserves reporting.



<b>Cutoff Grade Calculation</b>	<b>Internal Cutoff Grade</b>	<b>Break Even Cutoff Grade</b>
<b>Basic Parameters</b>		
Gold Price	US\$450/oz	US\$450/oz
Gold Recovery	67.7%	67.7%
<b>Operating Costs per Tonne of Ore</b>		
	\$ per Tonne of Ore	\$ per Tonne of Ore
Royalty (4%)	0.115	0.164
Smelting & Refining	0.015	0.021
Mining *	0.070	1.250
Processing	1.680	1.680
Heap Leach Pad Development	0.185	0.185
<u>G&amp;A</u>	<u>0.810</u>	<u>0.810</u>
Total	2.875	4.110
<b>Internal Cutoff Grade</b>		
	Grams per Tonne	Grams per Tonne
Head Grade Cutoff (67.7% recov.)	0.29	0.41
Recovered Gold Grade Cutoff	0.20	0.28

\* The calculation of an internal cutoff grade does not include the basic mining costs (which are considered to be sunk costs for material within the designed pit). The \$0.07 per tonne cost included is the incremental (added) cost of hauling ore over hauling waste, and which is included in the calculation.

#### Current Status of El Chanate

We have made significant progress in the construction and commissioning of our mine at El Chanate. As of March 13, 2007, engineering and procurement is complete, we have obtained all permits required to commence mining operations, the majority of equipment has been delivered and installed and the infrastructure support buildings have been constructed. The current status of the relevant areas is as follows:

Electrical power is supplied from the National grid by CFE (Commission Federal de Electricidad) in Caborca at 34.5 kilo volt-amperes and is converted to 480 volts at seven transformer stations throughout the site. The transmission lines and transformers have been installed and commissioned and approved for use by CFE. An emergency generator has been installed adjacent to the solution ponds to circulate the leach pad solution in the event of power interruptions. An additional substation is being built by the local power company 20 kilometers from the mine in the town of Altar. It will have the capability to increase power to the mine later this year should additional power be required in the event of additional consumption requirements for increased production or seasonal fluctuations.

Process water is supplied from a well owned by MSR, one of our Mexican subsidiaries. The well's casing has been inspected and equipped with a new pump and electrical hardware. The well is located nine kilometers from the mine and can supply water in sufficient quantity to support the mine through a new eight inch diameter steel pipeline. While there are issues about the adequacy of water supply over the entire life of the project, based on the anticipated water consumption for at least the first few years of operation, we believe that we have an allocation to meet our requirements. The capability of acquiring additional water through third party allocation purchase is available, as is the conservation of water through good operational practice. If we need to obtain additional rights, but are unable to procure them our planned operations may be adversely affected. See *"Our currently permitted water rights may not be adequate for all of our total project needs over the entire course of our anticipated mining operations. If we need to obtain additional rights, but are unable to procure them our planned operations may be adversely affected"* in "Risk Factors" below.

The mine access road is nine kilometers long and is capable of supporting all anticipated traffic. The road connects with a main asphalt road (Route 2) that is maintained by the state highways department. There are two arroyos that cross the mine access road, both of which have concrete crossings to prevent erosion of the road at these locations, giving year round access to the site. The internal access roads have been constructed for the life of the mine.

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The mine is supported by a number of infrastructure buildings all of which have been or are being constructed. The completed buildings in use are an explosive and detonator store, a 5,000 sq. ft warehouse, the mine office and the security guardhouse and first aid centre. Buildings due for completion by the end of March 2007 are, the laboratory, lime storage building and a cyanide and carbon storage building. The refinery building is anticipated to be completed by mid-April 2007.

The crushing and screening plant consists of three stage crushing and closed circuit screening. All of the equipment is new and has a design capacity of 1,000 tons per hour (tph) for the primary crushing circuit and 400 tph for the balance of the crushing circuit. A 20,000 ton buffer stockpile separates the primary crusher from the rest of the circuit allowing the crushing circuits to operate independently of each other. The crushed ore is stacked on the leach pad by a series of conveyors and a radial stacker. The equipment is new and has been commissioned and is currently stacking ore for over liner production and leaching. Ore is placed on a leach pad that is (HDPE) plastic lined to contain the gold bearing solution and transport it via lined launders (plastic lined earth trenches) to ponds which are double plastic lined. The initial leach pad will consist of four panels, three of which will be lined at this time (the ultimate leach pad will consist of ten panels). These four panels will allow for the stacking of approximately one year of crushed ore. The launder and ponds have been constructed for the mine life. The first two panels are complete and the remainder of the launder and pond construction is scheduled for completion during March 2007. We anticipate that we will begin to apply cyanide solution to the ore by the end of April 2007. We anticipate that gold Dore (bars of semi-purified gold) production will begin between 45 to 75 days thereafter.

The initial supply of ore to the crushing plant and leach pad is being loaded and delivered by a group of local truckers. Sinergia, the mining contractor, is in the process of mobilizing the mining fleet to commence mining on March 25, 2007. The Sinergia mining fleet is not new, however it has been refurbished at Sinergia's repair facility and at the Caterpillar dealer in Hermosillo. This process has been monitored by us and third party specialists and we believe the equipment will be suitable for mining when required. Sinergia is constructing staff accommodation within an existing Ejido village adjacent to the mine site. On site power, water, and fuel supply has been made available for Sinergia's use as prescribed in the mining contract.

The gold in the cyanide/gold solution (pregnant solution) will be recovered using activated carbon held in tanks. The activated carbon will be transferred on a daily basis to a processing plant (ADR Plant) that, with the use of chemicals, will extract the gold from the pregnant solution. The gold from the solution will be deposited by an electrowinning (electrolysis) process and then dried, mixed with fluxes (substances that reduce the melting point of the material and remove impurities in the metal) and smelted in a furnace to produce gold Dore. The solution that has been stripped of gold will gravitate to the barren solution pond. Cyanide will be added to this and the solution will be pumped to freshly stacked ore. The ADR Plant is not new. It has been refurbished; all of the pumps, valves, piping, instruments and electrical components have been replaced. The pumps and piping associated with the solution ponds are also new. We anticipate that the ADR Plant will be operational and ready for use by mid April 2007.

We have filled all key positions in finance, human resources, operations and mine support (other than a General Manager), and the majority of the remainder of the staff is also in place. Our Chief Operating Officer is acting as our General Manager until a replacement can be found. We are actively searching for a replacement and we do not believe that it will be a problem