Semler Scientific, Inc.
Form 10-Q
May 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ___ to ___

Commission File Number 001-36305

SEMLER SCIENTIFIC, INC.

(Exact name of Registrant as specified in its Charter)

Delaware	**26-1367393**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2330 N.W. Everett	
Portland, Oregon	**97210**
(Address of principal executive offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(877) 774-4211**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large Accelerated Filer ¨		Accelerated Filer	¨
	Non-Accelerated Filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x	

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

As of April 30, 2015, there were 4,976,517 shares of the issuer’s common stock, $0.001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements. Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as “expects,” “anticipates,” “intends,” “estimates,” “plans,” “believes,” “seeks,” “may,” “should,” “continue,” “could” or the negative of such terms or other similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report.

You should read this quarterly report and the documents that we reference herein and therein and have filed as exhibits to this report, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this quarterly report is accurate as of the date of this report only. Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. These risks and uncertainties, along with others, are described above under the heading “Risk Factors” in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 13, 2015. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of the information presented in this quarterly report, and particularly our forward-looking statements, by these cautionary statements.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Semler Scientific, Inc.

Condensed Statements of Operations

(In thousands, except share and per share amounts)

	(Unaudited) Three months ended March 31, 2015		2014	
Revenue	$ 1,202		$ 837	
Operating expenses:				
Cost of revenue	220		155	
Engineering and product development	309		229	
Sales and marketing	1,228		746	
General and administrative	793		497	
Total operating expenses	2,550		1,627	
Loss from operations	(1,348	)	(790	)
Other expense:				
Interest and other expense	(24	)	(27	)
Other expense	(24	)	(27	)
Net loss	$ (1,372	)	$ (817	)
Net loss per share, basic and diluted	$ (0.29	)	$ (0.36	)
Weighted average number of shares used in computing basic and diluted loss per share	4,763,573		2,240,703	

See accompanying notes to unaudited condensed financial statements.

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Semler Scientific, Inc.

Condensed Balance Sheets

(In thousands, except share and per share amounts)

	(Unaudited) March 31, 2015	December 31, 2014
Assets		
Current Assets:		
Cash	$ 3,061	$ 4,156
Restricted Cash	2,100	2,100
Trade accounts receivable, net of allowance for doubtful accounts of $54 and $28, respectively	356	355
Prepaid expenses and other current assets	144	135
Total current assets	5,661	6,746
Assets for lease, net	662	673
Property and equipment, net	26	9
Long-term deposits	17	17
Deferred financing costs	37	55
Total assets	$ 6,403	$ 7,500
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 89	$ 89
Accrued expenses	1,226	1,363
Deferred revenue	493	612
Loans payable	2,000	2,000
Total current liabilities	3,808	4,064
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 4,858,517 and 4,741,017 shares issued, and 4,833,517 and 4,716,017 outstanding (net of treasury shares of 25,000 and 25,000), respectively	5	5
Additional paid-in capital	17,829	17,298
Accumulated deficit	(15,239)	(13,867)
Total stockholders' equity	2,595	3,436
Total liabilities and stockholders' equity	$ 6,403	$ 7,500

See accompanying notes to unaudited condensed financial statements.

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Semler Scientific, Inc.

Condensed Statements of Cash Flows

(In thousands)

	(Unaudited) Three months ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,372)	$ (817)
Reconciliation of Net Loss to Net Cash Used in Operating Activities:		
Amortization of deferred financing costs	18	23
Depreciation	59	47
Loss on disposal of assets for lease	25	16
Allowance for doubtful accounts	51	50
Stock-based compensation expense	33	-
Changes in Operating Assets and Liabilities:		
Trade accounts receivable	(52)	21
Prepaid expenses and other current assets	(9)	(176)
Accounts payable	-	(116)
Accrued expenses	(137)	58
Deferred revenue	(119)	(132)
Net Cash Used in Operating Activities	(1,503)	(1,026)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(19)	(4)
Purchase of assets for lease	(71)	(116)
Net Cash Used in Investing Activities	(90)	(120)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	498	10,010
Offering costs	-	(1,959)
Payments of loans payable	-	(15)
Payments of equipment leases	-	(12)
Net Cash Provided by Financing Activities	498	8,024
INCREASE (DECREASE) IN CASH	(1,095)	6,878
CASH, BEGINNING OF PERIOD	4,156	734
CASH, END OF PERIOD	$ 3,061	$ 7,612
Cash paid for interest	$ 8	$ 4
Supplemental disclosure of noncash financing activity:		
Conversion of preferred stock into common stock	$ -	$ 6,707

See accompanying notes to unaudited condensed financial statements.

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Semler Scientific, Inc.

Notes to Financial Statements

(In thousands, except share and per share amounts)

1. Basis of Presentation

Semler Scientific, Inc., a Delaware corporation ("Semler" or "the Company"), prepared the unaudited interim financial statements included in this report in accordance with United States generally accepted accounting principles ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company's annual report on Form 10-K filed with the SEC on February 13, 2015 (the "Annual Report"). The balance sheet as of December 31, 2014 included in this report has been derived from the audited financial statements included in the Annual Report. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for any future period, including the full year. Items in prior year financial statements have been adjusted to conform with the current year presentation.

Initial Public Offering

In February 2014, the Company completed its initial public offering ("IPO") in which it issued and sold 1,430,000 shares of its common stock at a public offering price of $7.00 per share. The Company received net proceeds of $7,403 after deducting underwriting discounts and commissions of $848 and other offering expenses of approximately $1,759. The Company incurred $648 of the offering expenses in 2013, and incurred $1,959 of such expenses in the first quarter of 2014. The Company granted the underwriter an overallotment option to acquire an additional 214,500 shares of its common stock, which expired April 6, 2014 unexercised, and issued the underwriter warrants to acquire an aggregate of 71,500 shares of its common stock at an exercise price of $8.75 per share, which became exercisable February 20, 2015 and expire February 20, 2019. Upon the closing of the IPO, all shares of the Company's then-outstanding Series A convertible Preferred Stock (1,468,402), Series A-1 convertible Preferred Stock (293,750) and Series A-2 convertible Preferred Stock (250,000) automatically converted into an aggregate of 2,012,152 shares of common stock. In addition, the Company's then outstanding warrants to acquire an aggregate of 1,067,210 shares of Series A convertible Preferred Stock and 228,656 shares of Series A-1 convertible Preferred Stock were cashlessly exercised at the IPO price for an aggregate of 479,115 shares of common stock. All other outstanding warrants of the Company became exercisable for common stock effective upon the IPO in accordance with their terms.

2. Going Concern

The Company has incurred recurring losses since inception and expects to continue to incur losses as a result of costs and expenses related to the Company's marketing and other promotional activities, research and continued development of its product. As of March 31, 2015, the Company has working capital of $1,853, cash and restricted cash of $5,161 (which includes $2,100 of restricted cash) and stockholders' equity of $2,595. The Company's principal sources of cash have included the issuance of equity securities, and to a lesser extent, borrowings under loan agreements and revenue from leasing its product. To increase revenues, the Company's operating expenses will continue to grow and, as a result, the Company will need to generate significant additional revenues to achieve profitability. In order to execute on its business plan, and given current available cash, the Company anticipates that it will need to raise additional capital.

The Company's financial statements as of March 31, 2015 have been prepared under the assumption that the Company will continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate additional revenue. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company can give no assurances that additional capital that the Company is able to obtain, if any, will be sufficient to meet the Company's needs. If the Company is unable to raise additional capital within the next twelve months to continue to fund operations at its current cash expenditure levels, the Company's operations will need to be curtailed. The foregoing conditions raise substantial doubt about the Company's ability to continue as a going concern.

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Semler Scientific, Inc.

Notes to Financial Statements

(In thousands, except share and per share amounts)

3. Assets for Lease

Assets for lease consist of the following:

	March 31, 2015	December 31, 2014
Assets for lease	$ 988	$ 956
Less: Accumulated Depreciation	(326)	(283)
Assets for lease, net	$ 662	$ 673

Depreciation expense amounted to $57 and $47 for the three months ended March 31, 2015 and March 31, 2014, respectively. Reduction to accumulated depreciation for returned items was $14 and $16 for the three months ended March 31, 2015 and March 31, 2014, respectively.

4. Deferred Financing Costs

As of March 31, 2015 and December 31, 2014, deferred financing costs have the net amounts of $37 and $55, respectively. The amounts amortized to interest expense were $18 and $23 for the three months ended March 31, 2015 and March 31, 2014, respectively. Per details in Note 6, leases were paid off early due to the opening of a new line of credit, resulting in acceleration of the expensing of the outstanding deferred financing costs.

5. Accrued Expenses

Accrued expenses consist of the following:

	March 31,	December 31,

	2015	2014
Offering Costs	$ 317	$ 407
Compensation	569	721
Miscellaneous Accruals	340	235
Total Accrued Expenses	$ 1,226	$ 1,363

The accumulated offering costs that were accrued pertain to consulting fees associated with securing equity financing for the Company prior to the IPO. Prior to becoming Chief Executive Officer ("CEO"), the Company's current CEO performed consulting services for the Company, which included managing finance, sales, marketing, operational and strategic planning for our company, as well as assistance and strategic guidance in securing financing.

6. Commitments and Contingencies

Facilities Leases

For the three months ended March 31, 2015, the Company recognized $32 in facilities lease expense. The Company had no material facilities leases for the three months ended March 31, 2014 and had no rent expense for such period. On September 23, 2014, the Company entered into a 36-month lease agreement for office space for the sales and marketing team located in Menlo Park, CA. The lease term commenced February 1, 2015 and is effective through January 31, 2018. Payments required under the terms of the lease are $17.0 per month from February 2015 to January 2016, $17.5 per month from February 2016 to January 2017, and $18.0 per month from February 2017 to January 2018. The Company anticipates total future lease payments of $186.6 for the year ended December 31, 2015; $209.1 for the year ended December 31, 2016; $215.4 for the year ended December 31, 2017; and $18.0 for the year ended December 31, 2018.

Equipment Leases and Loans Payable

On February 9, 2011, the Company entered into an Equipment Finance Agreement with U.S. Bancorp Business Equipment Finance Group. Pursuant to the agreement, the Company obtained a $39 secured loan for a 48-month term that had an annual

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(In thousands, except share and per share amounts)

fixed interest rate of 13%. The loan was secured by the related leased equipment. Under the agreement, the Company made monthly payments consisting of $1 of principal plus any accrued interest. The agreement provided for customary events of default. This loan was personally guaranteed by a Company director and a principal stockholder of the Company. This facility was retired in September 2014. At March 31, 2014, the Company had outstanding borrowings of $10.

On May 27, 2011, the Company entered into an Equipment Finance Agreement with U.S. Bancorp Business Equipment Finance Group. Pursuant to the Agreement, the Company obtained a $109 secured loan for a 60-month term that had an annual fixed interest rate of 6%. The loan was secured by the related leased equipment. Under the Agreement, the Company made monthly payments consisting of $2 of principal plus any accrued interest. The Agreement provided for customary events of default. This loan was personally guaranteed by a Company director and a principal stockholder of the Company. This facility was retired in September 2014. At March 31, 2014, the Company had outstanding borrowings of $50.

At various dates in 2011, the Company entered into Lease Agreements with Lease Corporation of America. Pursuant to these agreements, the Company obtained an aggregate amount of $66 for a 60-month term that had variable annual interest rates of approximately 14%. The leases were secured by the related leased equipment. Under the agreements, the Company made monthly payments of approximately $1 of principal plus any accrued interest. The agreements provided for customary events of default. The leases were personally guaranteed by a principal stockholder of the Company. This facility was retired in September 2014. At March 31, 2014, the Company had outstanding borrowings of $40.

On June 17, 2011, the Company entered into a loan agreement with First Republic Bank. Pursuant to the loan agreement, the Company obtained a $150 secured loan for a 60-month term that had a variable interest rate based on First Republic's Prime plus a spread of 1.75% p.a. and a floor of 3.25% p.a. The initial interest rate was 5% p.a. Under the loan agreement, the Company made monthly payments consisting of $3 of principal plus any accrued interest. The loan agreement provided for customary events of default. This loan was personally guaranteed by a principal stockholder of the Company. This loan agreement was retired in September 2014. At March 31, 2014, the Company had outstanding borrowings of $68.

On September 13, 2011, the Company entered into an additional loan agreement with First Republic Bank. Pursuant to the loan agreement, the Company obtained a $150 loan for a 60-month term that had a variable annual interest rate

based on First Republic's Prime plus a spread of 1.75% and a floor of 3.25%. The initial interest rate was 5%. Under the loan agreement, the Company made monthly payments consisting of $3 of principal plus any accrued interest. The loan agreement provided for customary events of default. This loan was personally guaranteed by a principal stockholder of the Company. This loan agreement was retired in September 2014. At March 31, 2014, the Company had outstanding borrowings of $75.

On September 30, 2014, the Company entered into a revolving line of credit with First Republic Bank. Pursuant to the line of credit agreement, the Company may borrow up to $2,000 for a 12-month term that has a variable annual interest rate based on First Republic's Prime less a spread of 2.0% p.a. The initial interest rate is 1.25% p.a. Under the line of credit agreement, the Company will make monthly payments consisting of $2 of interest, and an annual payment consisting of $2,002 principal plus any accrued interest. The line of credit agreement provides for customary events of default. This line of credit is secured by a $2,100 collateral cash account in the Company's name at First Republic. As of March 31, 2015, the Company was in compliance with the material terms of this facility. At March 31, 2015, the Company had outstanding borrowings of $2,000. The line of credit matures September 30, 2015. Accordingly, the entire amount is classified as short-term.

Interest expense under these obligations for the three months ended March 31, 2015 and 2014 was $6 and $4, respectively.

Indemnification Obligations

The Company enters into agreements with customers, partners, lenders, consultants, lessors, contractors, sales representatives and parties to certain transactions in the ordinary course of the Company's business. These agreements may require the Company to indemnify the other party against third party claims alleging that its product infringes a patent or copyright. Certain of these agreements require the Company to indemnify the other party against losses arising from: a breach of representations

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Semler Scientific, Inc.

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(In thousands, except share and per share amounts)

or covenants, claims relating to property damage, personal injury or acts or omissions of the Company, its employees, agents or representatives. The Company has also agreed to indemnify the directors and certain of the officers and employees in accordance with the by-laws of the Company. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on the Company's liability, and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, the Company cannot estimate its potential liability under these indemnities. The Company believes that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, the Company had not made any significant payment under such indemnification provisions. Accordingly, the Company has not recorded any liabilities relating to these agreements. In certain cases, the Company has recourse against third parties with respect to the aforesaid indemnities, and the Company believes it maintains adequate levels of insurance coverage to protect the Company with respect to potential claims arising from such agreements.

7. Net Loss Per Common Share

Because the Company was in a loss position for each of the periods presented, diluted net loss per share is the same as basic net loss per share for each period as the inclusion of all potential common shares outstanding would have been anti-dilutive. The following outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because including them would have been anti-dilutive:

	Three Months ended March 31,	
	2015	2014
Weighted average shares outstanding:		
Convertible preferred stock	-	1,266,072
Convertible preferred stock warrants	-	996,724
Common stock warrants	359,714	133,377
Options	717,548	337,500
Total	1,077,262	2,733,673

8. Stock-Based Compensation

The Company’s stock-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of its stockholders. Stock options have been granted to employees under the stockholder-approved 2007 Key Person Stock Option Plan (“2007 Plan”) or the stockholder-approved 2014 Stock Incentive Plan (“2014 Plan”). Stockholder approval of the 2014 Plan became effective in September 2014. The 2014 Plan provides that the aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2014 Plan may not exceed 450,000 shares (the “Share Reserve”). However, the Share Reserve automatically increases on January 1st of each year, for a period of not more than 10 years, beginning on January 1st of the year following the year in which the 2014 Plan became effective and ending on (and including) January 1, 2024, in an amount equal to 4% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year. The Company’s Board of Directors may act prior to January 1st of a given year to provide that there will be no January 1st increase in the Share Reserve for such year or that the increase in the Share Reserve for such year will be a lesser number of shares of common stock than would otherwise occur. The Share Reserve is currently 638,640 shares for the year ending December 31, 2015.

In light of stockholder approval of the 2014 Plan, the Company will no longer grant equity awards under the 2007 Plan. As of March 31, 2015, 0 shares of an aggregate total of 407,500 shares were available for future stock-based compensation grants under the 2007 Plan and 332,390 shares of an aggregate total of 638,640 shares were available for future stock-based compensation grants under the 2014 Plan.

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Aggregate intrinsic value represents the difference between the closing market value as of March 31, 2015 of the underlying common stock and the exercise price of outstanding, in-the-money options. A summary of the Company's stock option activity and related information for 2015 and 2014 is as follows:

	Options Outstanding			
	Number of Stock Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (In Years)**	**Aggregate Intrinsic Value (in thousands)**
Balance, January 1, 2015	649,500	$ 1.49	7.44	$ 474
Options granted	75,000	1.96		
Options canceled	(18,750)	2.10		
Balance, March 31, 2015	705,750	$ 1.52	7.40	$ 1,421
Exercisable as of March 31, 2015	432,729	$ 1.18	5.98	$ 1,029

The total compensation cost related to unvested stock option awards not yet recognized was $377 and $0 as of March 31, 2015 and 2014, respectively. The weighted average period over which the total unrecognized compensation cost related to these unvested stock awards is 1.55 years. The total estimated grant date fair value of unvested options was $377 and $0 as of March 31, 2015 and 2014, respectively. The total estimated grant date fair value of options vested during the quarters ended March 31, 2015 and 2014 was $33 and $0, respectively. The weighted average grant date fair value of options granted during the quarter ended March 31, 2015 is $1.38 per share or an aggregate grant date fair value of $104. There were no options granted during the quarter ended March 31, 2014.

On January 1, 2015 the Company's Board of Directors granted an option to acquire an aggregate of 75,000 shares under the 2014 Plan. The options vest on a monthly schedule over 48 months such that they are vested in full on the four-year anniversary of the grant date. As of March 31, 2015 there were 325,000 grants, no exercises and 18,750 cancelations of stock options under the 2014 Plan.

Determining the Fair Value of Stock Options

The Company uses the Black-Scholes pricing model to determine the fair value of stock options. The fair value of each option grant is estimated on the date of the grant. The fair value of the options granted is estimated on the date of grant using the Black-Scholes pricing model and the following assumptions for the periods presented:

	Quarter ended March 31,		
	2015		2014
Expected term (in years)	5		—
Risk-free interest rate	1.61	%	—
Expected volatility	82.5	%	—
Expected dividend rate	0	%	—

The assumptions are based on the following for each of the years presented:

Valuation Method - The Company estimates the fair value of its stock options using the Black-Scholes option pricing model.

Expected Term - The Company estimates the expected term consistent with the simplified method identified by the SEC. The Company elected to use the simplified method because of its limited history of stock option exercise activity and its stock options meet the criteria of the “plain-vanilla” options as defined by the SEC. The simplified method calculates the expected term as the average of the vesting and contractual terms of the award.

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(In thousands, except share and per share amounts)

Surface Mine:

Surface mining by way of an open pit without shafts or underground working.

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PART I

Item 1. Business

Capital Gold Corporation is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate project, and we also conduct gold exploration in other locations in Sonora, Mexico.

Sonora, Mexico Concessions

El Chanate

Through wholly-owned subsidiaries, Capital Gold Corporation owns 100% of 16 mining concessions located in the Municipality of Altar, State of Sonora, Republic of Mexico totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles). We commenced mining operations on two of these concessions in late March 2007 and achieved gold production and revenue from operations in early August 2007. We sometimes refer to the operations on these two concessions as the El Chanate Project. Our results of operations differ from preceding periods because we now are realizing revenue from operations.

On August 30, 2007, Independent Mining Consultants, Inc. ("IMC") of Tucson, AZ delivered to us an updated resource block model and an updated mine plan and mine production schedule (the "2007 Report"). The original feasibility study (the "2003 Study") on the El Chanate Project was prepared by M3 Engineering of Tucson in August 2003. M3 updated the 2003 Study in October 2005 (the "2005 Study"). An August 2006 technical report from SRK Consulting, Denver, Colorado (the "2006 Update") further updated the feasibility study.

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

In September 2008, we initiated a 10 hole deep core drilling campaign at our El Chanate mine consisting of 2,500 meters which will target the southern extremity of the main pit. Once this data has been compiled and analyzed, it will be combined with results from a previous drilling campaign initiated in December 2007 which consisted of a 26 reverse circulation holes amounting to 4,912 meters. These drill holes were mainly positioned to test the outer limits of the currently known ore zones within the main pit. All data will be combined with the intention of increasing proven and probable reserves.

We sold 39,102 ounces of gold during the fiscal year ended July 31, 2008. Gold production at El Chanate is currently at a level of approximately 4,700 ounces of gold per month. We also produce a limited amount of silver by-product.

For more information on the El Chanate Project, please see "Item 2. Property; El Chanate Properties – Sonora, Mexico."

Competition

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

Human Resources

As of October 24, 2008, we had 143 full time and 16 temporary employees working at our El Chanate mine in Sonora, Mexico as well as eight full time employees in the US. We also utilize a mining contractor at the El Chanate mine which had 42 personnel onsite.

Cautionary Statement on Forward-Looking Statements

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

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

Item 1A. Risk Factors

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

Risks related to our business and operations

If we are unable to sustain sufficient operating revenues, we will not be able to generate profits and our business may fail.

Until this past fiscal year, we had no producing properties and, historically, have operated at a loss. We only commenced gold producing activities and started to generate revenues in August 2007. Our ultimate success will depend on our ability to continue to generate profits from our properties. While we have commenced revenue producing mining operations, we cannot assure that revenues will continue to cover cash flow requirements.

While we believe that we will continue to generate positive cash flow and profits from operations, if we encounter unexpected problems, we may need to raise additional capital. If additional capital is required and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.

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

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

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

Our mining contractor is using reconditioned equipment which could adversely affect our cost assumptions and our ability to economically and successfully mine the project.

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

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

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

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

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

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

The profitability of any gold mining operations in which we have an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. During the fiscal year ended July 31, 2008, the spot price for gold on the London Exchange has fluctuated between $657.50 and $1,011.30 per ounce. Gold prices are affected by numerous factors beyond our control, including:

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

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

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

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

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

To date, rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, we have opted for a net cash settlement between the call option purchase price of $535 and the forward sale price of $500, or $35.00 per oz. As of September 30, 2008, we have paid Standard Bank an aggregate of approximately $1,936,000 on the settlement of 55,325 ounces. The remaining ounces to settle with regard to this agreement amounted to 66,602 as of September 30, 2008. We believe we will be able to deliver the quantity of gold required by our forward sales on a going forward basis; however, we may continue to opt to net cash settle these forward sale obligations if it remains the most cost effective option for us. If we are unable for any reason to produce the quantity of gold required by our forward sales and generate sufficient cash flow to settle these forward sales in gold or cash, it could have a material adverse effect on our financial condition and cash flows.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Such risks could result in:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the price of gold,
- the particular attributes of the deposit, such as its
  - size,
  - grade and
  - proximity to infrastructure,
- financing costs,

- taxation,
- royalties,
- land tenure,
- land use,
- water use,
- power use,
- importing and exporting gold and
- environmental protection.

The effect of these factors cannot be accurately predicted.

Risks related to ownership of our stock

The market price of our stock may be adversely affected by market volatility due to the current significant instability in the financial markets.

As a result of the current substantial instability in the financial markets, our stock price has recently fluctuated significantly. We cannot predict if or when current adverse economic conditions will be resolved and what the affect this instability will continue to have on the price of our stock.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Property

El Chanate Properties – Sonora, Mexico

Through our wholly-owned subsidiaries, Oro de Altar S. de R. L. de C.V. (“Oro”) and Minera Santa Rita S. de R.L. de C.V. (“MSR”), we own 100% of the following 16 mining concessions, all of which are located in the Municipality of Altar, State of Sonora United States of Mexico.

The 16 mining concessions are as follows:

	Concession Name	Title No.	Hectares
1	San Jose	200718	96.0000
2	Las Dos Virgen	214874	132.2350
3	Rono I	206408	82.1902
4	Rono 3	214224	197.2180
5	La Cuchilla	211987	143.3481
6	Elsa	212004	2,035.3997
7	Elisa	214223	78.4717
8	Ena	217495	190.0000
9	Eva	212395	416.8963
10	Mirsa	212082	20.5518
11	Olga	212081	60.5890
12	Edna	212355	24.0431
13	La Tira	219624	1.7975
14	La Tira 1	219623	18.6087
15	Los Tres	223634	8.000
16	El Charro	206404	40.0000
	Total		3,543.3491

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

Until August 2006, we were following an August 2003 feasibility study (the "2003 Study") prepared by M3 Engineering of Tucson, Arizona ("M3") as updated by M3 in October 2005 (The "2005 Study"). The 2005 Study used a base gold price of $375 per ounce. 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").

In May 2007, we completed an expanded 72-hole reverse circulation drilling campaign to identify additional proven and probable gold reserves at the El Chanate Project. The 72 holes totaled approximately 8,300 meters, and were positioned to fill in gaps in the ore body and test the outer limits of the currently known ore zones. We turned the assay data over to Independent Mining Consultants, Inc. ("IMC") of Tucson, AZ to update our ore reserve and our mine plan. On August 30, 2007, IMC delivered to us an updated resource block model and an updated mine plan and mine production schedule (the "2007 Report").

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

El Chanate is an open pit heap leach mining and processing operation. Ore is hauled by truck from the pits to the processing plant. The recovery of gold from certain gold oxide ores is achieved through the heap leaching process. Under this method, oxide ore is placed on leach pads where it is treated with a chemical solution, which dissolves the gold contained in the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. The equipment and facility infrastructure that is utilized at the El Chanate mine consists of both new and refurbished items. Management continuously analyzes production results and considers improvements and modernizations as deemed necessary.

Equipment and facilities include: plant, a fleet of haul trucks, loaders and mining support equipment. In addition, there are numerous ancillary support facilities including warehouses, maintenance shops, roadways, administrative offices and power and water supply systems. The equipment and facility infrastructure that is utilized at the El Chanate mine consists of both new and refurbished items. Management continuously analyzes production results and considers improvements and modernizations as deemed necessary.

In September 2008, we initiated a 10 hole deep core drilling campaign at our El Chanate mine consisting of 2,500 meters which will target the southern extremity of the main pit. Once this data has been compiled and analyzed, it will be combined with results from a previous drilling campaign initiated in December 2007 which consisted of a 26 reverse circulation holes amounting to 4,912 meters. These drill holes were mainly positioned to test the outer limits of the currently known ore zones within the main pit. All data will be combined with the intention of increasing proven and probable reserves.

During fiscal 2008, we identified certain restrictions related to our ADR plant capacity which limited the amount of solution that can be processed. We have addressed these issues by doubling the installed pumping capacity to increase solution flow to the leach pad and added additional carbon capacity to the system. We also purchased and installed an additional set of carbon columns and a strip vessel to process an additional two tonnes of carbon per strip. The installation and commissioning of these ADR plant upgrades was completed at the end of October 2008.

The following production summary estimate has been extracted from the 2007 Report. Please note that the reserves as stated are an estimate of what can be economically and legally recovered from the mine and, as such, incorporate losses for dilution and mining recovery. The 832,280 ounces of contained gold represents ounces of gold contained in ore in the ground, and therefore does not reflect losses in the recovery process. Total gold produced is estimated to be 555,960 ounces, or approximately 66.8% of the contained gold. The gold recovery rate is expected to average approximately 66.8% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 73% to 48%. Oxidized and sandstone ore types may have recoveries of about 73%; fault zone ore type recoveries may be about 64%; siltstone ore types recoveries may be about 48% and latite intrusive ore type recoveries may be about 50%.

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

* "g/t" means grams per metric tonne, "opt" means ounces per ton, "Mt/d" means metric tonnes per day and "t/d" means tons per day. The reserve estimates are based on a recovered gold cutoff grade of 0.17 to 0.21 grams per metric tonne, depending on the operating year, and as described below.
** Based on mining rate of 7,500 metric tonnes per day of ore. We are currently in excess of 10,000 metric tonnes per day.

El Chanate Project

Production Summary

In the mineral resource block model developed, with blocks 6m (meters) x 6m x 6m 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 2 or more drill holes within a search radius of 80m x 70m x 40m and with a relative kriging (a geostatistical calculation technique) standard deviation less than or equal to 0.45 were classified as Measured (corresponding to Proven);

- Blocks with 1 hole within the search radius of 80m x 70m x 40m and with a relative kriging standard deviation of 0.60 or less, blocks with 2 holes and a kriging standard deviation of 0.70 or less, blocks with 3 holes and a kriging standard deviation of 0.80 or less, blocks with 4 holes and a relative kriging standard deviation of 0.90 or less and all blocks with 5 or more holes within the search radius were classified as Indicated (corresponding to Probable), unless they met the above criterion for Proven;

- Blocks with a grade estimate that did not meet the above criteria 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 gold grade or a resource classification.

The proven and probable reserve estimates are based on a recovered gold cutoff grade of 0.17 to 0.21 grams/tonne, depending on the operating year. The variation is due to balancing the mine and plant production capacities on a year by year basis for the plan. (A 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) and break even cutoff grade calculations are as follows:

Cutoff Grade Calculation	Internal Cutoff Grade	Break Even Cutoff Grade
Basic Parameters		
Gold Price	US$550/oz	US$550/oz
Shipping and Refining	US$ 4.14/oz	US$ 4.14/oz
Gold Recovery	66.8%	66.8%
Royalty	4% of NSR	4% of NSR
Operating Costs per Tonne of Ore	$ per Tonne of Ore	$ per Tonne of Ore
Mining *	0.070	1.360
Processing/Leach Pad	1.980	1.980
G&A	0.800	0.800
Total	2.850	4.140
Internal Cutoff Grade	Grams per Tonne	Grams per Tonne
Head Grade Cutoff (66.8% recov.)	0.25	0.37
Recovered Gold Grade Cutoff	0.17	0.25

* 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.

We commenced production at the El Chanate property on July 31, 2007. In the fiscal year ended July 31, 2008, we sold 39,102 ounces of gold. Gold production at El Chanate is currently at a level of approximately 4,700 ounces of gold per month. We have implemented steps necessary to effectively increase production rates to approximately 70,000 ounces per year in 2009. As of August 31, 2008, we have expended approximately $3,500,000 on the leach pad expansion and ADR plant improvement. Management has been and anticipates that it will continue to fund these expansion costs with its cash on hand as well as through revenues from gold sales.

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

Proven and probable mineral reserve (Ktonnes of ore)	July 31, 2008	July 31, 2007	July 31, 2006
Ore	-	-	-
Beginning balance (Ktonnes)	38,785	19,868	19,868
Additions	-	19,593	-
Reductions	(3,499)	(676)	-
Ending Balance	35,286	38,785	19,868
Contained gold			
Beginning balance (thousand of ounces)	814	490	490
Additions	-	342	-
Reductions	(95)	(18)	-
Ending Balance	719	814	490

Surface Property Ownership

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

General Information and Location

The El Chanate Project is located in the State of Sonora, Mexico, 37 kilometers northeast of the town of Caborca. It is accessible by paved and all weather dirt roads typically traveled by pickup trucks and similar vehicles. Driving time from Caborca is approximately 40 minutes. Access from Caborca to the village of 16 de September is over well maintained National highways. Beyond the 16 de September village, routes to the property are currently over well traveled gravel and sandy desert roads suitable for all types of vehicles. We acquired rights for service road access from the village of 16 de September, and constructed this road.

The project is situated on the Sonora desert in a hot and windy climate, generally devoid of vegetation with the exception of cactus. The terrain is generally flat with immense, shallow basins, scattered rock outcropping and low rocky hills and ridges. The desert floor is covered by shallow, fine sediment, gravel and caliche. The main body of the known surface gold covers an irregularly shaped area of approximately 3,170 feet long by 1,590 feet wide. Several satellite mineral anomalies exist on surfaces which have not been thoroughly explored. Assays on chip samples taken from trenches at these locations by us indicate the presence of gold mineralization.

In 2005, we acquired 15 year rights of way for the current access road, and we acquired the right to purchase 81 hectares of land near the main highway. We have use of the land; however, our actual purchase of the land is conditioned upon the Ejido (local cooperative) privatizing the land, before the acquisition is finalized. We subsequently purchased an extension of our rights-of-way from 15 to 30 years. In addition to this road, we acquired a water concession, and our water well is located within a large regional aquifer. The 2005 feasibility study indicated our average life of mine water requirements, for ore processing only, will be about 94.6 million gallons per year (11.4 liters per second). The amount of water we were permitted to pump for our operations was approximately 71.3 million gallons per year (8.6 liters per second). In September 2007, and in conjunction with the results of the 2007 Report, we acquired additional water rights which permits us to consume up to 109.1 million gallons per year. Based on the anticipated water consumption for the life of mine, we believe that we have an allocation to meet our requirements.

In December 2005, MSR entered into a Mining Contract with a Mexican mining contractor, Sinergia Obras Civiles y Mineras, S.A. de C.V. ("Contractor"). The Mining Contract, as amended, became effective November 1, 2006 and work commenced on or about March 25, 2007 (the "Commencement Date"). Pursuant to an amendment to the Mining Contract, the mining rates set forth in that contract are subject to adjustment for the rate of inflation between September 23, 2005 and the Commencement Date. We are currently in negotiations with the Contractor on an adjustment to these rates for the aforementioned period. Pursuant to the Mining Contract, the Contractor, using its own equipment, is supposed to 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 the Contractor under the Mining Contract. Pursuant to the Mining Contract, upon termination, the Contractor would be obligated to repay any portion of the advance payment that had not yet been recouped. The Contractor's mining rates are subject to escalation on an annual basis. This escalation is tied to the percentage escalation in the Contractor's costs for various parts for its equipment, interest rates and labor. One of the principals of the Contractor ("FG's Successor") is one of the former principals of Grupo Minero FG S.A. de C.V. ("FG"). FG was our former joint venture partner. In March 2007, we made a further advance to the Contractor of $319,000 in consideration of FG's successors transfer to us of his remaining interest in MSR. As of July 31, 2008, the entire advance has been recovered.

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

Geology

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

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

Alteration/Mineralization

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

Our Acquisition and Ownership of the El Chanate Project

In June 2001, we purchased 100% of the issued and outstanding stock of Minera Chanate, S.A. de C.V. from AngloGold North America Inc. and AngloGold (Jerritt Canyon) Corp. Minera Chanate's assets at the time of the closing of the purchase consisted of 106 exploitation and exploration concessions in the States of Sonora, Chihuahua and Guerrero, Mexico. By June 2002, after property reviews and to minimize tax payments, the 106 had been reduced to 12 concessions. To cover certain non-critical gaps between concessions, four new concessions were acquired, and the number of concessions is now 16. These concessions are contiguous, totaling approximately 3,543 hectares (8,756 acres or 13.7 square miles). Although there are 16 concessions, we are only mining two of these concessions at the present time. We also own outright 466 hectares (1,151 acres or 1.8 square miles) of surface rights at El Chanate and no third party ownership or leases exist on this fee land or the El Chanate concessions. In the future, assuming adequate funding is available, we plan on conducting exploration activities on some of the other concessions.

Pursuant to the terms of the agreement with Anglo Gold, in December 2001, we made a $50,000 payment to AngloGold. AngloGold will be entitled to receive the remainder of the purchase price by way of an ongoing percentage of net smelter returns of between 2% and 4% plus a 10% net profits interest (until the total net profits interest payment received by AngloGold equals $1,000,000). AngloGold's right to a payment of a percentage of net smelter returns and the net profits interest will terminate at such point as they aggregate $18,018,355. In accordance with the agreement, the foregoing payments are not to be construed as royalty payments. Should the Mexican government or other jurisdiction determine that such payments are royalties, we could be subjected to and would be responsible for any withholding taxes assessed on such payments. During the first part of 2008, Royal Gold, Inc. acquired from Anglo Gold the right to receive both the net smelter returns of between 2% and 4% plus and the 10% net profits interest which terminates at such point as they aggregate $18,018,355. As of July 31, 2008, we have incurred approximately $1,272,000 and $728,000 in expense with regard to both the net smelter return and net profits interest, respectively.

Under the terms of the agreement, we had granted AngloGold the right to designate one of its wholly-owned Mexican subsidiaries to receive a one-time option to purchase 51% of Minera Chanate (or such entity that owns the El Chanate concessions at the time of option exercise). That option was exercisable over a 180 day period commencing at such time as we notified AngloGold that we had made a good faith determination that we had gold-bearing ore deposits on any one of the identified groups of El Chanate concessions, when aggregated with any ore that we have mined, produced and sold from such concessions, of in excess of 2,000,000 troy ounces of contained gold. The exercise price would equal twice our project costs on the properties during the period commencing on December 15, 2000 and ending on the date of such notice. In January 2008, we made a good faith determination and notified AngloGold that the drill indicated resources at the El Chanate gold mine exceeded two million ounces of contained gold. The term "drill indicated resources" is defined in the agreement. A drill indicated resource number does not rise to the level of, and should not be considered proven and probable reserves as those terms are defined under guidelines of the Securities Exchange Commission (“SEC”). On July 1, 2008, AngloGold notified us that it would not be exercising its back-in right.

Saric Properties – Sonora, Mexico

We recently leased 12 mining concessions totaling 1,790 hectares located northwest of Saric, Sonora. In addition, we filed and now own a claim for approximately 2,200 additional hectares adjacent to this property. These concessions and this claim are about a sixty mile drive northeast of the El Chanate project. Mineralization is evident throughout and is hosted by shear zones and quartz veins in granite intrusive. A short drill program, along with geochemical work, is currently underway.

We continue to actively investigate other exploration projects in northern Mexico.

Item 3. Legal Proceedings

We are not presently a party to any material litigation.

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

No matter was submitted to a vote of our stockholders during the fiscal quarter ended July 31, 2008.

PART II

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

(a) Marketing Information — The principal U.S. market in which our common shares (all of which are of one class, $.0001 par value Common Stock) are traded or will trade is in the over-the-counter market (Bulletin Board Symbol: "CGLD"). Our stock is not traded or quoted on any Automated Quotation System.

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

MARKET PRICE OF COMMON STOCK

Quarter Ending	High and Low	
July 31, 2008	0.70	0.60
April 30, 2008	0.78	0.62
January 31, 2008	0.81	0.60
October 31, 2007	0.63	0.38
July 31, 2007	0.47	0.38
April 30, 2007	0.47	0.37
January 31, 2007	0.41	0.31
October 31, 2006	0.33	0.28

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

Period Ending	High and Low	
	US$/CDN$	US$/CDN$
Quarter ended July 31, 2008	0.70/0.71	0.61/0.60
Quarter ended April 30, 2008	0.83/0.83	0.62/0.62
Quarter ended January 31, 2008	0.77/0.76	0.58/0.57
Quarter ended October 31, 2007	0.60/0.61	0.39/0.40
Quarter ended July 31, 2007	0.50/0.54	0.35/0.37
Quarter ended April 30, 2007	0.52/0.60	0.36/0.42
Quarter ended January 31, 2007	0.42/0.49	0.27/0.31
Quarter ended October 31, 2006	0.36/0.40	0.28/0.32

(b) Holders — The approximate number of record holders of our Common Stock, as of October 24, 2008 amounts to 2,236 inclusive of those brokerage firms and/or clearing houses holding our common shares for their clientele (with each such brokerage house and/or clearing house being considered as one holder). The aggregate number of shares of Common Stock outstanding is 192,974,824 as of October 24, 2008.

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

On July 17, 2008, at the recommendation of the Compensation Committee of the Board of Directors, our executive officers and directors were granted 515,000 shares under our 2006 Equity Incentive Plan. The restricted shares granted vested immediately. The fair value of the stock was $0.70 on the date of grant resulting in our recording approximately $361,000 in equity based compensation expense within general and administrative expense.

All of the foregoing issuances were exempt from registration pursuant to the provisions of Section 4(2) of the Securities Act of 1933.

We did not repurchase any of our securities during the fiscal year ended July 31, 2008.

The following table gives information about our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of July 31, 2008.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights* (a)	Weighted-average Exercise price of Outstanding options, warrants and rights (b)	Number of securities Remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:	4,665,000	$ 0.56	3,225,000
Equity compensation plans not approved by security holders:	900,000	$ 0.58	N/A
Total	5,565,000	$ 0.58	3,225,000

*Does not include the issuance of 2,110,000 shares of restricted stock during the fiscal year ended July 31, 2008

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Performance Graph

Total Return To Shareholders
(Includes reinvestment of dividends)

	QUARTERLY RETURN PERCENTAGE Quarter Ending			
Company / Index	10/31/07	1/31/08	4/30/08	7/31/08
Capital Gold Corporation	36.07	10.48	-6.61	-0.77
S&P SmallCap 600 Index	5.12	-12.65	1.20	-1.48
Peer Group	9.32	-20.42	-4.41	17.42

	Base Period	INDEXED RETURNS Quarter Ending			
Company / Index	8/1/07	10/31/07	1/31/08	4/30/08	7/31/08
Capital Gold Corporation	100	136.07	150.32	140.39	139.31
S&P SmallCap 600 Index	100	105.12	91.82	92.92	91.55
Peer Group	100	109.32	87.00	83.16	97.64

Peer Group Companies:
ALAMOS GOLD INC
GAMMON GOLD INC
WESTERN GOLDFIELDS INC

ITEM 6. Selected Financial Data.

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements, and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Annual Report. The statement of operations and balance sheet data presented below for, and as of the end of, each of the years in the five year period ended July 31, 2008 are derived from our audited consolidated financial statements. Historical results are not necessarily indicative of the results to be expected in the future. The Selected Financial Data is in thousands except for share and per share data.

	Fiscal Year Ended July, 31				
	2008	2007	2006	2005	2004
Statement of Operations data:					
Revenues	$ 33,104	$ -	$ -	$ -	$ -
Net Income (loss)	$ 6,364	$ (7,472)	$ (4,805)	$ (2,006)	$ (2,939)
Income (loss) per share – Basic	$ 0.04	$ (0.05)	$ (0.04)	$ (0.03)	$ (0.06)
Balance Sheet data:					
Total Assets	$ 48,879	$ 27,551	$ 9,546	$ 5,552	$ 486
Long-term Debt	$ 8,375	$ 12,500	$ -	$ -	$ -
Reclamation and Remediation Liability	$ 1,666	$ 1,249	$ -	$ -	$ -

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

The following discussion relates to the three fiscal years ended July 31, 2008, 2007 and 2006. As disclosed in greater detail elsewhere in this report, we commenced mining operations and began to receive operating revenues in August 2007, shortly after the end of the fiscal year ended July 31, 2007. (000's, except where otherwise specifically noted).

Overview

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

Our financial position was as follows:

	For the year ended July 31, 2008	For the year ended July 31, 2007
Total debt	$ 12,500	$ 12,500
Total stockholders' equity	$ 28,197	$ 11,986
Cash and cash equivalents	$ 10,992	$ 2,225
Working capital	$ 15,825	$ 6,343

During our fiscal year ended July 31, 2008 our debt and liquidity positions were affected by the following:

- Net cash provided from continuing operations of $6,318;
- Capital expenditures of $5,507;
- Proceeds from the issuance of common stock upon the exercising of warrants of $7,474;

Looking Forward

Certain key factors will affect our future financial and operating results. These include, but are not limited to, the following (000's except for ounces and cash cost data):

- Fluctuations in gold prices;
- We expect minimum fiscal 2009 gold sales of approximately 55,000 ounces;
- Cash costs per ounce sold, excluding royalties, for fiscal 2009 are expected to be approximately $250 to $275 per ounce as the impact of industry-wide cost pressures are expected to be slightly higher;
- We anticipate capital expenditures of approximately $5,500 to $6,500 in fiscal 2009 with nearly all being allocated to our El Chanate mine in Sonora, Mexico;

- Our fiscal year 2009 expectations, particularly with respect to sales volumes and cash costs per ounce sold, may differ significantly from actual quarter and full fiscal year results due to variations in: ore grades and hardness, metal recoveries, waste removed, commodity input prices, foreign currencies and gold sale prices.

Result of Operations

Fiscal year ended July 31, 2008 compared to fiscal year ended July 31, 2007

Net income for the year ended July 31, 2008 was approximately $6,364 compared to a net loss of approximately $7,472 for the year ended July 31, 2007. The principal reason for this transition was our realizing revenue from operations during the year ended July 31, 2008. Our first gold sale occurred in August 2007. Net income per common share was $0.04 for the year ended July 31, 2008, on a basic basis and $0.03 on a diluted basis. The net loss per share for the same period in 2007 was $0.05 on a basic basis. Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants were excluded from the calculation of diluted net loss per share for the fiscal year ended July 31, 2007 since their effect was anti-dilutive.

Revenues & Costs Applicable to Sales

Gold revenue for the year ended July 31, 2008 totaled approximately $33,104. We sold 39,102 ounces at an average realizable price per ounce of approximately $847. Costs applicable to sales were approximately $10,690 for the current period. There were no metal sales for the same period in the prior year as we had not yet realized revenue from our operations. Our cash cost and total cost per ounce sold, excluding Royal Gold’s 10% net profit interest, formally owned by AngloGold, was $257 and $316, respectively, for the year ended July 31, 2008. If we factor in this net profit interest cost for the same period, our cash cost and total cost per ounce sold would be $276 and $335, respectively. These costs were slightly higher than previous quarter results primarily due to the accrual of this net profit interest which is capped at $1,000. As of July 31, 2008, we had approximately $753 accrued towards this net profits interest. We anticipate accruing the remaining portion of the net profit interest within this calendar year.

Revenues from by-product sales (silver) are credited to Costs applicable to sales as a by-product credit. Silver sales totaled 40,461 ounces at an average price of $17.48 amounting to approximately $707 for the year ended July 31, 2008.

Depreciation and Amortization

Depreciation and amortization expense during the year ended July 31, 2008 and 2007 was approximately $3,438 and $891, respectively. The increase of approximately $2,547 was primarily due to a full year of depreciation and amortization charges related to the El Chanate capital costs being incurred in the current period. The charges during the same period in the prior year were significantly lower as most of these assets were placed in service in April 2007. Depreciation and amortization also represents deferred financing costs resulting from the Credit Facility we entered into with Standard Bank. This accounted for approximately $1,088 and $876 of the amortization expense during the years ended July 31, 2008 and 2007, respectively.

General and Administration Expense

General and administrative expenses during the year ended July 31, 2008 were approximately $5,586, an increase of approximately $2,693 or 93% from the year ended July 31, 2007. The increase in general and administrative expenses resulted primarily from: 1) higher salaries and wages for officers and employees including the hiring of a controller and the awarding of cash bonuses of approximately $1,708, 2) the granting of stock options and restricted stock to our officers and employees under our 2006 Equity Incentive Plan amounting to approximately $467, 3) higher investor relations fees and travel fees of approximately $221, 4) higher accounting and consulting fees of approximately $419 versus the same period a year earlier, primarily due to the awarding of a cash bonus to one of our officers as well as higher consulting fees related to compliance with internal control over financial reporting, and 5) an increase in insurance costs of approximately $116 versus the same period a year earlier as we were not yet in full production in the prior period. The above mentioned increases in compensation, cash bonus awards as well as the stock option and restricted stock awards were granted based upon recommendations from an independent report on executive compensation. This independent report, requested by our Compensation Committee, was obtained in order to assist us in attracting and retaining individuals of experience and ability, to provide incentive to our employees and directors, to encourage employee and director proprietary interests in our company, and to encourage employees to remain in our employ.

Exploration Expense

Exploration expense during the years ended July 31, 2008 and 2007 was approximately $938 and $1,816, respectively, or a decrease of $878 or 48%. The primary reason for the decrease in exploration expense was the result of higher engineering and planning costs related to our El Chanate Project being expensed in the prior period as well as the costs incurred from our 72-hole reverse circulation drilling campaign to identify additional proven and probable gold reserves at the El Chanate Project which was completed in May 2007. The current period includes: 1) costs from our completed 26 hole reverse circulation drilling program in December 2007 amounting to 4,912 meters at El Chanate. The drill holes were mainly positioned to test the outer limits of the currently known ore zones, and 2) cost associated with our recently leased 12 mining concessions totaling 1,790 hectares located northwest of Saric, Sonora. We initiated a short drill program as well as some geochemical work related to these claims during the current period. Also, a claim has been filed for approximately 2,200 additional hectares adjacent to this property. These concessions and this claim are about a sixty mile drive northeast of the El Chanate project. Mineralization is evident throughout and is hosted by shear zones and veins in granite intrusive.

Other Income and Expense

Our loss on the change in fair value of derivative instruments during the year ended July 31, 2008 and 2007, was approximately $1,356 and $1,226, respectively, and was reflected as an other expense. This was primarily due to the change in fair value of our two identically structured derivative contracts with Standard Bank which correlates to fluctuations in the gold price. These contracts were not designated as hedging derivatives; and therefore, special hedge accounting does not apply.

Interest expense was approximately $1,207 for the year ended July 31, 2008 compared to approximately $792 for the same period a year earlier. This increase was mainly due to higher interest charges incurred during the current period related to our fully outstanding credit facility with Standard Bank. As of July 31, 2008 and 2007, there was $12,500 outstanding, respectively, on this credit facility.

Income Tax Expense

Income tax expense was $3,507 during the fiscal year ended July 31, 2008, compared to $0 in 2007 with an effective tax rate of 35% and 0%, respectively. The factors that most significantly impact our effective tax rate are valuation allowances related to deferred tax assets offset partially by lower statutory tax rates in Mexico. Current income tax expense and deferred income tax expense amounted to $2,111 and $1,396 as of July 31, 2008, respectively.

Mining operations are primarily conducted in Mexico that has tax laws, tax incentives and tax rates that are significantly different than those of the United States. On October 1, 2007, the Mexican Government enacted legislation which introduced certain tax reforms as well as a new minimum flat tax system. This new flat tax system integrates with the regular income tax system and is based on cash-basis net income that includes only certain receipts and expenditures. The flat tax is set at 17.5% of cash-basis net income as determined, with transitional rates of 16.5% and 17.0% in 2008 and 2009, respectively. If the flat tax is positive, it is reduced by the regular income tax and any excess is paid as a supplement to the regular income tax. If the flat tax is negative, it may serve to reduce the regular income tax payable in that year or can be carried forward for a period of up to ten years to reduce any future flat tax. Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that we will not be liable for any excess flat tax for calendar year 2008 and, accordingly, have recorded a Mexican income tax provision as of July 31, 2008.

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

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

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

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

Changes in Foreign Exchange Rates

During the year ended July 31, 2008 and 2007, we recorded equity adjustments from foreign currency translations of approximately $622 and $205, respectively. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar and are included as a component of other comprehensive income.

Summary of Annual Results
(000's except per share Data and ounces sold)

		For the year ended July 31, 2008	For the year Ended July 31, 2007	For the year Ended July 31, 2006
Revenues		33,104	-	-
Net Income (loss)		6,364	(7,472)	(4,805)
Basic net income (loss) per share		0.04	(0.05)	(0.04)
Diluted net income (loss) per share		0.03	-	-
Gold ounces sold		39,102	-	-
Average price received	$	847	-	-
Cash cost per ounce sold(1)	$	276	-	-
Total cost per ounce sold(1)	$	335	-	-

(1) Excluding the net profit interest, cash and total cost per ounce sold were $257 and $316, respectively.

Summary of Results of Operations

	For the year ended July 31, 2008	For the year ended July 31, 2007(1)	For the year ended July 31, 2006
Tonnes of ore mined	3,498,612	545,089	-
Tonnes of waste removed	2,627,318	209,567	-
Ratio of waste to ore	0.75	0.38	-
Tonnes of ore processed	3,529,699	631,530	-
Grade (grams/tonne)	0.85	0.88	-
Gold (ounces)			
- Produced(2)	39,242	578	-
- Sold	39,102	-	-

(1) Commercial production at El Chanate commenced on July 31, 2007 and the operation was still in its ramp up and production results are not comparable.
(2) Gold produced each year does not necessarily correspond to gold sold during the year, as there is a time delay in the actual sale of the gold.

Fiscal year ended July 31, 2007 compared to fiscal year ended July 31, 2006

Net Loss

Our net loss for the fiscal year ended July 31, 2007 was approximately $7,472, an increase of approximately $2,667 or 56% from the fiscal year ended July 31, 2006. As discussed below, the primary reasons for the increase in loss during the fiscal year ended July 31, 2007 were: 1) an increase in general and administrative expenses of approximately $668; 2) an increase in depreciation and amortization expense of approximately $852; 3) an increase in exploration expenditures of approximately $808; 4) an increase in losses of approximately $644 due to the change in fair value of our derivative instruments; and 5) an increase in interest expense of approximately $792. These increases in loss were slightly offset by a decrease in mine expenses of approximately $933 due to higher planning and engineering costs being expensed in the prior fiscal year. Net loss per share was $.05 and $.04 for the fiscal year ended July 31, 2007 and 2006, respectively.

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Revenues

We generated no revenues from mining operations during the fiscal year ended July 31, 2007 and 2006. There were de minimis non-operating revenues during the fiscal year ended July 31, 2007 and 2006 of approximately $146 and $184, respectively. These non-operating revenues primarily represent interest income.

General and Administration Expense

General and administrative expenses during the fiscal year ended July 31, 2007 were $2,893, an increase of approximately $668 or 30% from the fiscal year ended July 31, 2006. The increase in general and administrative expenses resulted primarily from higher salaries and wages, higher professional and consulting fees as well as an increase in insurance costs versus the same period a year earlier.

Exploration Expense

Exploration expense during the fiscal year ended July 31, 2007 and 2006 was approximately $1,816 and $1,941, respectively. These expenses can be attributed to our 72-hole drilling campaign to determine additional proven and probable gold reserves at the El Chanate Project in 2007, as well as engineering and planning costs related to this project over both periods presented.

Depreciation and Amortization

Depreciation and amortization expense during the fiscal year ended July 31, 2007 and 2006 was approximately $891 and $39, respectively. The primary reason for the increase was due to amortization charges on deferred financing costs resulting from the Credit Facility entered into in August 2006 with Standard Bank Plc. This accounted for approximately $876 of the amortization expense during the fiscal year ended July 31, 2007.

Other Income and Expense

Our loss on the change in fair value of derivative instruments during the fiscal year ended July 31, 2007 and 2006, was approximately $1,226 and $582, respectively. This was primarily due to us entering into two identically structured derivative contracts with Standard Bank in March 2006. Each derivative consisted of a series of forward sales of gold and a purchase gold cap. We agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of $500 per ounce on a quarterly basis during the period from March 2007 to September 2010. We also agreed to a purchase gold cap on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of $535 per ounce. While the period of the derivative contracts has commenced, we do not anticipate any material adverse effect from the fact that we have 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; and the second was entered into on March 30, 2006 for a premium of $250. The gold price rose sharply in the second quarter 2006, and was the primary reason for the decrease in premium on the derivative contracts. The change in fair value during the fiscal year ended July 31, 2007 reduced the carrying value on these derivative contracts by approximately $1,226, and was reflected as an other expense during the 2007 period.

Interest expense was approximately $792 for the fiscal year ended July 31, 2007 compared to $0 for the same period in 2006. This increase was mainly due to interest expense associated with our outstanding balances on our draw downs associated with the Credit Facility entered into in August 2006 with Standard Bank Plc related to project costs for our El Chanate Project.

Liquidity and Capital Resources

Operating activities

Cash provided by operating activities during the year ended July 31, 2008 was approximately $6,318, which primarily represents cash flows resulting from our realization of revenue from operations during the year ended July 31, 2008. Cash used in operating activities for the same period a year ago was $3,663 as we had not yet been realizing revenue from operations.

Investing Activities

Cash used in investing activities during the year ended July31, 2008, amounted to approximately $5,479, primarily from the leach pad expansion and the acquisition of equipment, including additional conveyors and ADR plant equipment, as well as additional water rights related to our El Chanate Project. Cash used in investing activities for the same period a year ago was approximately $18,425 which directly related to the development of the El Chanate mine.

Financing Activities

Cash provided by financing activities during the year ended July 31, 2008 amounted to approximately $7,306, primarily from the exercising of 22,994,178 warrants for gross proceeds of approximately $7,474. Cash provided by financing activities for the same period a year ago was approximately $21,367 which mostly comprised of the full draw down of our credit facility of $12,500 and proceeds received of approximately $3,486 from the issuance of common stock in private placements and $5,643 from the issuance of common stock upon the exercising of 22,203,909 warrants.

Term loan and Revolving Credit Facility

On July 17, 2008, we closed in escrow pending execution of Mexican collateral documents and certain other ministerial matters, an Amended And Restated Credit Agreement (the “Credit Agreement”) involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers (“Borrowers”), us, as guarantor, and Standard Bank PLC (“Standard Bank”), as the lender. The Mexican collateral documents were executed on September 18, 2008, effectively closing the loan. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006 (the “Original Agreement”). Under the Original Agreement, MSR and Oro could borrow, and did borrow, money in an aggregate principal amount of up to $12,500 (the “Term Loan”) for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. We guaranteed the repayment of the Term Loan and the performance of the obligations under the Original Agreement.

The Credit Agreement establishes a new senior secured revolving credit facility that permits Borrowers to borrow up to $5,000 during the one year period after the closing of the Credit Agreement. The Borrowers may request a borrowing of the Revolving Commitment from time to time, provided that the Borrowers are not entitled to request a borrowing more than once in any calendar month (each borrowing a "Revolving Loan"). Repayment of the Revolving Loans will be secured and guaranteed in the same manner as the Term Loan. Term Loan principal shall be repaid quarterly commencing on September 30, 2008 and consisting of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. Principal under the Term Loan and the Revolving Loans shall bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. An Interest Period can be one, two, three or six months, at the option of the Borrowers. The Applicable Margin for the Term Loan and the Revolving Loans is 2.5% per annum and 2.0% per annum, respectively. The Borrowers are required to pay a commitment fee in respect of the Revolving Commitment at the rate of 1.5% per annum on the average daily unused portion of the Revolving Commitment. Pursuant to the terms of the Original Credit Agreement, Standard Bank exercised significant control over the operating accounts of MSR located in Mexico and in the United States. Standard Bank's control over the accounts has been lifted significantly under the terms of the Credit Agreement, giving the Borrowers authority to exercise primary day-to-day control over the accounts. However, the accounts remain subject to an account pledge agreement between MSR and Standard Bank.

Debt Covenants

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

In connection with the refinance proceedings, MSR, as a condition precedent to closing, obtained a waiver letter from the Lender of any default or event of default as a result of not being in compliance with regulations of Mexican federal law with regard to certain filing and environmental bonding issues in connection with the operation of mining the El Chanate concessions as well as certain insurance requirements. MSR has not yet complied with these regulations due to the absence of professionals in the area qualified to conduct studies to facilitate compliance. MSR believes that the Mexican government is aware of these barriers to compliance and that it has not enforced the Requirements against MSR or other mining companies in Sonora. MSR has agreed to make a commercially reasonable effort to come into compliance with these requirements. See also "Environmental and Permitting Issues" section below.

As of July 31, 2008, except for the aforementioned waiver, we and our related entities were in compliance with all debt covenants and default provisions. For the purposes of meeting these financial covenants, the accounts of Caborca Industrial are not required to be included in the calculation of these covenants.

Environmental and Permitting Issues

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

We received the renewable explosive permit from the government that expires on December 31, 2008 and is renewable annually.

We do include in all our internal revenue and cost projections a certain amount for environmental and reclamation costs on an ongoing basis. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect our planned operations. We estimated the reclamation costs for the El Chanate site to be approximately $2,300. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at each mine site. We reviewed the estimated present value of the El Chanate mine reclamation and abandonment costs as of July 31, 2008. This review resulted in an increase in the Asset Retirement Obligation by approximately $293. As of July 31, 2008 and 2007, approximately $1,666 and $1,249, respectively, was accrued for reclamation obligations relating to mineral properties in accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations.”

We own properties in Leadville, Colorado for which we have previously recorded an impairment loss. Part of the Leadville Mining District has been declared a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and the Superfund Amendments and Reauthorization Act of 1986. Several mining companies and one individual were declared defendants in a possible lawsuit. We were not named a defendant or Principal Responsible Party. We did respond in full detail to a lengthy questionnaire prepared by the Environmental Protection Agency ("EPA") regarding our proposed procedures and past activities in November 1990. To our knowledge, the EPA has initiated no further comments or questions. The Division of Reclamation, Mining and Safety of the State of Colorado (the “Division”) conducted its most recent inspection of our Leadville Mining properties in August 2007. The Division concluded that based upon 2007 equipment prices and labor costs, an additional $46 was necessary to be bonded with the Division to reclaim the site to achieve the approved post-mining land use. The total amount of the bond sufficient to perform reclamation as of July31, 2008, is approximately $82. We have met this bonding requirement. During our 4th fiscal quarter ended July 31, 2008, we sold two of the Leadville Mining claims and the mill for gross proceeds of $100 which was recorded within other income and expense.

Contractual Obligations

Our contractual obligations as of July 31, 2008 are summarized as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Debt (1)	$ 13,500	$ 5,125	$ 8,375	$ -	$ -
Remediation and reclamation obligations(2)	3,751	-	-	-	3,751
Operating leases(3)	585	132	440	13	-
Derivative instruments(4)	2,626	1,177	1,449	-	-
Minimum royalty payments(5)	1,000	1,000	-	-	-
	$ 21,462	$ 7,434	$ 10,264	$ 13	$ 3,751

(1) Amounts represent principal ($12,500) and estimated interest payments ($1,000) assuming no early extinguishment.
(2) Mining operations are subject to extensive environmental regulations in the jurisdictions in which they operate. Pursuant to environmental regulations, we are required to close our operations and reclaim and remediate the lands that operations have disturbed. The estimated undiscounted cash outflows of these remediation and reclamation obligations are reflected here. For more information regarding remediation and reclamation liabilities, see Note 13 to the Consolidated Financial Statements.
(3) Amount represent a non-cancelable operating lease for office space in NYC that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs.
(4) Amounts represent the net cash settlement of 75,044 ounces of gold at $35 per ounce.
(5) Amount represents the payment of the 10% net profits interest on the El Chanate mining concessions which is capped at $1,000. This does not include the net smelter return payments as this payment is linked to the gold price and cannot be reasonable estimated given variable market conditions.

While we believe that our available funds in conjunction with anticipated revenues from gold sales will be adequate to cover capital expenditures, debt service, royalties, net cash settlements on our gold price protection agreement as well as operating activities at El Chanate and corporate general and administrative expenses for fiscal 2009, if we encounter unexpected problems we may need to raise additional capital. We also may need to raise additional capital for significant property acquisitions and/or exploration activities. To the extent that we need to obtain additional capital, management intends to raise such funds through the sale of our securities and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available. If we need additional capital and we are unable to obtain it from outside sources, we may be forced to reduce or curtail our operations or our anticipated exploration activities.

New Accounting Pronouncements

Fair Value Option

On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities, including not-for-profit organizations. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not

report net income. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions".

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

Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We elected not to adopt the fair value option for any eligible instruments.

Noncontrolling Interests

On December 4, 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51." Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We believe adoption of this standard will not have an impact on the financial condition or the results of our operations.

Derivative Instruments and Hedging Activities

On April 21, 2008, the FASB posted a revised FASB Statement No. 133 Implementation guidance for Issues I1, Interaction of the Disclosure Requirements of Statement 133 and Statement 47, and K4, Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness. The revisions relate to the issuance of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. We believe adoption of this standard will not have a material impact on the financial condition or the results of our operations.

Hierarchy of Generally Accepted Accounting Principles

The FASB has issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Statement 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. The hierarchy under Statement 162 is as follows:

* FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, AICPA Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB, and Rules and interpretive releases of the SEC for

SEC registrants.

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* FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position.

* AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the EITF, and Appendix D EITF topics.

Statement 162 is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Since Statement 162 is only effective for nongovernmental entities, the GAAP hierarchy will remain in AICPA Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report, for state and local governmental entities and federal governmental entities. We believe the adoption of this standard will not have a material impact on the financial condition or the results of our operations.

Accounting for Financial Guarantee Insurance Contracts

The FASB issued FASB Statement No. 163, Accounting for Financial Guarantee Insurance Contracts. This new standard clarifies how FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts.

Statement 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities, which are effective the first period (including interim periods) beginning after May 23, 2008. Except for the required disclosures, earlier application is not permitted. We believe the adoption of this standard will not have an impact on the financial condition or the results of our operations.

Disclosure About Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

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

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

Ore on Leach Pads

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

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

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

In-process Inventory

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

Precious Metals Inventory

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

Materials and Supplies

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

Property, Plant and Mine Development

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

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

Impairment of Long-Lived Assets

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

Reclamation and Remediation Costs (Asset Retirement Obligations)

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at our mine site in accordance with FASB FAS No. 143, "Accounting for Asset Retirement Obligations."

Deferred Financing Costs

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

Intangible Assets

Purchased intangible assets consisting of rights of way, easements and net profit interests are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is our policy to assess periodically the carrying amount of our purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2008.

Fair Value of Financial Instruments

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

Revenue Recognition

Revenue is recognized from the sale of gold dore when persuasive evidence of an arrangement exists, the price is determinable, the product has been delivered to the refinery, the title and risk of loss has been transferred to the refiner and collection of the sales price is reasonably assured from the customer. Sales are calculated based upon assay of the dore's precious metal content and its weight. The Company receives 95% of the precious metal content contained within the dore from the refinery based upon the preliminary assay of the Company. The Company forwards an irrevocable transfer letter to the refinery to authorize the transfer of the precious metal content to the customer. The sale is recorded by the Company upon the refinery pledging the precious metal content to the customer. Revenues from by-product sales, which consists of silver, will be credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $707, $0 and $0 for the fiscal years ended July 31, 2008, 2007 and 2006, respectively.

Equity Based Compensation

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

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

Accounting for Derivatives and Hedging Activities

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

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

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

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

We are exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but we do not expect any of the counterparties to fail to meet their obligations. To manage credit risks, we select counterparties based on credit ratings, limit our exposure to a single counterparty under defined guidelines, and monitor the market position with each counterparty as required by SFAS 133.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Metal Price

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

Foreign Currency

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

Gold Price Protection Agreement

In March 2006, we entered into a gold price protection arrangement with Standard Bank to protect us against future declines in the price of gold. We agreed to a series of gold forward sales and call option purchases in anticipation of entering into the Credit Facility. Under the price protection agreement, we have agreed to forward sales for a total volume of 121,927 ounces of gold forward to Standard Bank at a price of $500 per ounce. These forward sales were to be settled quarterly over the period from March 2007 to September 2010. We also purchased call options from Standard Bank enabling the right to purchase gold on the same quarterly basis for the same total volume with a strike price of $535 per ounce. Together, these forward sales and call options serve to put a floor on our gold sales price and thereby protect us from the effects of the market price falling below $535 per ounce, while allowing us to enjoy the upside of higher gold prices. To date, the we have net settled these contracts, making cash payments reflecting the difference between the call option purchase price of $535 and the forward sale price of $500, or $35.00 per oz on the volume prescribed by the contracts.

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The total contractual ounces to settle and cash payments remaining on the gold price protection agreement are as follows (000's):

Fiscal year ending:	Ounces Remaining	Amount
2009	33,638	$ 1,177
2010	33,176	$ 1,161
2011	8,230	$ 288
Total	75,044	$ 2,626

Interest Rate Swap Contracts

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

Market Risk Disclosures
July 31, 2008
(in thousands)

Instruments entered into for hedging purposes -

Type of Derivative	Notional Size	Fixed Price or Strike Price	Underlying Price	Termination or Expiration	Fair Value
Interest Rate Swaps	$ 6,938(1)	5.30%	3 Mo. USD LIBOR	12/31/2010	$ (205)
Gold Forward Sales (2)	(3) 8,428 oz./qtr.	$ 500/oz.	Price of gold	9/30/2010	$ (30 ,765)
Gold Call Options (2)	(3) 8,428 oz./qtr.	$ 535/oz.	Price of gold	9/30/2010	$ 30,039

(1) The value shown reflects the notional as of July 31, 2008. Over the term of the swap, the notional amortizes, dropping to approximately $656.
(2) These contracts are used for hedging purposes, but hedge accounting is not applied.
(3) The value shown reflects the current notional, but these contracts amortize down to 8,230 ounces per quarter by the contract termination.

As of July 31, 2008, the dollar value of a basis point for this interest rate swap was slightly less than $900, suggesting that a one-basis point rise (fall) of the yield curve would likely foster an increase (decrease) in the interest rate swaps value by slightly less than $900. Because hedge accounting is applied, the contract serves to lock in a fixed rate of interest for the portion of the variable rate debt equal to the swap's notional size. The swap covers only 75 percent of our variable rate exposure.

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The combined gold forward sales and long call options serve to synthesize a put option that protects us from the market exposure to gold prices below $535 per ounce on the volume of sales consistent with the notional size of these contracts. These contracts covered approximately 90 percent of production during their term ending July 31, 2008.

Item 8. Financial Statements and Supplementary Data.

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

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

There have been no changes in or disagreements with accountants with respect to accounting and/or financial disclosure.

Item 9A. Controls and Procedures.

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

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

Management’s Report on Internal Control Over Financial Reporting

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

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

Management has assessed the effectiveness of our internal control over financial reporting as of July 31, 2008. In making this assessment, management used the criteria set forth in the framework established by the Committee of Sponsoring Organizations of the Treadway Commission Internal Control—Integrated Framework, (COSO). Based on this assessment, management has not identified any material weaknesses as of July 31, 2008. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management has concluded that we did maintain effective internal control over financial reporting as of July 31, 2008, based on the criteria set forth in "Internal Control—Integrated Framework" issued by the COSO.

This Amendment No. 1 to Annual Report on Form 10-K/A does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management has requested that its registered public accounting firm provide such report and, as soon as the attestation report is available, the Company will file an amendment to its Form 10-K for the year ended July 31, 2008 to include such report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The following table sets forth certain information concerning our directors and executive officers:

Name	Age	First Became Director	Position
Gifford A. Dieterle	76	9/82	President, Treasurer & Chairman of the Board
John Brownlie	59	2/07	Chief Operating Officer, Director
Christopher Chipman	35		Chief Financial Officer
Jeffrey W. Pritchard	50	1/00	Director, Executive Vice President, Secretary
Robert Roningen	73	9/93	Director, Senior Vice President,
Roger A. Newell	65	8/00	Director
J. Scott Hazlitt	56		Vice President – Mine Development
Ian A. Shaw	68	3/06	Director
John Postle	67	3/06	Director
Mark T. Nesbitt	63	3/06	Director

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

GIFFORD A. DIETERLE, President, Treasurer and Chairman of our Board of Directors. Mr. Dieterle was appointed President in September 1997 and has been an officer and Chairman since 1981. He has a M.S. in Geology obtained from New York University. From 1977 until July 1993, he was Chairman, Treasurer, and Executive Vice-President of Franklin Consolidated Mining Company. From 1965 to 1987, he was lecturer in geology at the City University of N.Y. (Hunter Division). Mr. Dieterle has been Secretary-Treasurer of South American Minerals Inc. since 1997 and a director of that company since 1996.

JOHN BROWNLIE, Chief Operating Officer and a Director, has worked for us since May 2006 and is in charge of supervising the construction, start-up and operation of the mine. Mr. Brownlie provided team management for mining projects requiring technical, administrative, political and cultural experience over his 28 year mining career. From 2000 to 2006, Mr. Brownlie was a consultant providing mining and mineral related services to various companies including SRK, Oxus Mining plc and Cemco Inc. From 1995 to 2000, he was the General Manager for the Zarafshan-Newmont Joint Venture in Uzbekistan, a one-million tonne per month heap leach plant which produced

over 400,000 ounces of gold per year. From 1988 to 1995, Mr. Brownlie served as the Chief Engineer and General Manager for Monarch Resources in Venezuela, at both the El Callao Revemin Mill and La Camorra gold projects. Before that, was a resident of South Africa and associated with numerous mineral projects across Africa. He is also a mechanical engineer and fluent in Spanish. Mr. Brownlie is also a director of Palladon Ventures, a publicly traded mineral-related company.

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

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

J. SCOTT HAZLITT, Vice President – Mine Development, has been in the mining business since 1974. Since 2001, he has focused on development of our El Chanate concessions. Currently, he is involved in mine expansion plans and corporate development. He has worked primarily in reserves, feasibility, development and mine operations. Mr. Hazlitt was a field geologist for ARCO Syncrude Division at their CB oil Shale project in 1974 and 1975. He was a contract geologist for Pioneer Uravan and others from 1975 to 1977. He was a mine geologist for Cotter Corporation in 1978 and 1979, and was a mine geologist for ASARCO from 1979 to 1984. He served as Vice President of Exploration for Mallon Minerals from 1984 to 1988. From 1988 to 1992, Mr. Hazlitt was a project geologist and Mine Superintendent for the Lincoln development project. From 1992 to 1995, he was self-employed as a consulting mining geologist in California and Nevada. He was Mine Operations Chief Geologist for Getchell Gold from 1995 to 1999. His work experience has included precious metals, base metals, uranium, and oil shale. Mr. Hazlitt served as mine manager at our Hopemore Mine in Leadville, Colorado starting in November 1999. His highest educational degree is Master of Science from Colorado State University. He is a registered geologist in the state of California.

ROBERT RONINGEN, Senior Vice President and Director, has been engaged in the practice of law as a sole practitioner and is a self-employed consultant geophysicist in Duluth, Minnesota. Mr. Roningen served as our Secretary until February 2007. From 1988 to August 1993, he was an officer and director of Franklin Consolidated Mining Company, Inc. He graduated from the University of Minnesota in 1957 with a B.A. in geology and in 1962 with a degree in Law.

ROGER A. NEWELL, Director, worked for us from 2000 to September 2007. He was our Vice President – Development until September 2007. Since October 2007, Mr. Newell has been an Executive Vice President of Kilimanjaro Mining Company Ltd., a private Nevada based company involved in uranium and gold exploration in Tanzania, Africa. Since June 2008, he has served as the Chairman, CEO and President of Lake Victoria Mining Company, a U.S. public company with exploration property in Tanzania, Africa. From 1974 through 1977, he was a geologist with Kennecott Copper Corporation. From 1977 through 1989, he served as Exploration Manager/Senior Geologist for the Newmont Mining Corporation and, from 1989 through 1995, was the Exploration Manager for Gold Fields Mining Company. He was Vice President Development, for Western Exploration Company from 1997 through 2000. Since 1995, he has been a senior consultant in the Minerals Advisory Group LLC, Tucson, Arizona, a company that provides technical and engineering advice to clients regarding mineral projects. He has been self-employed as a geologist since 2001. He is a Fellow in the Society of Economic Geologists and a Past President of that Society's Foundation. . He has a M.Sc. from the Colorado School of Mines and a Ph.D. in mining and mineral exploration from Stanford University.

IAN A. SHAW is a member of our Board of Directors and the Board's Audit and Compensation Committees. Mr. Shaw has over 33 years of experience in the mining industry. He has been Managing Director of Shaw & Associates since 1993. Shaw & Associates is a corporate services consulting firm specializing in corporate finance, regulatory reporting and compliance with clients that are typically public companies in the resource industry. In the course of providing consulting services he has accepted positions as an officer or director with number of his clients. He recently held the position of Director, since 1994, of Metallica Resources Inc., a TSX listed corporation with a gold mine in Mexico, and exploration properties in Chile and Alaska. Positions he currently holds include Director of Pelangio Exploration, Inc., since 2008, a TSX listed corporation with an interest in gold exploration properties in Canada and Ghana; Director of PDX Resources, Inc. (formerly Pelangio Mines, Inc.), since 2008, a TSX listed company with an investment in a company which holds a gold property in Canada; Vice President, Finance and CFO, since May 2005, of Unor Inc., a TSX listed company with uranium exploration properties in Canada; and Chief Financial Officer, since January 2007, of Olivut Resources Ltd., a TSX listed corporation with diamond exploration properties in Canada. Mr. Shaw is a Chartered Accountant and received a B. Comm. from Trinity College at the University of Toronto in 1964.

JOHN POSTLE is a member of our Board of Directors and the Board's Audit and Compensation Committees. He is a Consulting Mining Engineer associated with Scott Wilson Roscoe Postle Associates Inc. In 1985 he was a founding partner of Roscoe Postle Associates Inc. which later merged with Scott Wilson Group Plc. Mr. Postle provides mining consulting services to a number of international financial institutions, corporations, utilities and law firms. He worked for Cominco Ltd (1965-1970), Falconbridge Ltd (1970-1975) and D.S. Robertson and Associates (1976-1985) and has worked at a number of open pit and underground mining operations in both operating and planning capacities. Mr. Postle is a Past Chairman of the Mineral Economics Committee of the Canadian Institute of Mining, Metallurgy and Petroleum ("CIM"), and was appointed a Distinguished Lecturer of the CIM in 1991. In 1997, he was awarded the CIM Robert Elver Mineral Economics Award. He is currently Chairman of a CIM Standing Committee on Ore Reserve Definitions. Mr. Postle is a director of Strait Gold Corporation, a Canadian publicly traded company, and serves as a member of that company's audit and disclosure committees. Mr. Postle has a B.A.Sc. Degree in Mining Engineering from the University of British Columbia in 1965 and a M.Sc. Degree in Earth Sciences from Stanford University in 1968."

MARK T. NESBITT is a member of our Board of Directors and the Board's Audit and Compensation Committees. Since 1988, he has been a natural resources attorney in Denver, Colorado specializing in domestic and international mining transactions, agreements, negotiations, title due diligence, corporate and general business counsel. Mr. Nesbitt has been an Adjunct Professor at the University of Denver School of Law's since 2001, is an active member of the Rocky Mountain Mineral Law Foundation, having served as a Trustee from 1987 to 1993, and from 2003 to 2006, Co-chairman of the Mining Sessions at the Foundation's international natural resource institute in Buenos Aires, Argentina in 2007, Co-chairman of the Foundation's Mining Law and Investment in Latin America institute in Lima, Peru in 2003, and Chairman of the same institute in 2003, and Chairman of the Foundation's first Land and Permitting Special Institute in 1994. He also has served continuously over the years on the Foundation's Special Institutes Committee, Long Range Planning Committee, and numerous other committees. Mr. Nesbitt is a member of the International, American, Colorado and Denver Bar Associations, Rocky Mountain Mineral Law Foundation, International Mining Professionals Society (Treasurer since 2000), and the Colorado Mining Association. He is also a former Director of the Colorado Mining Association and past President of the Rocky Mountain Association of Mineral Landmen. He received a B.S. degree in Geology from Washington State University in 1968 and a J.D. from Gonzaga University School of Law in 1975.

Jack V. Everett, resigned as our Vice President of Exploration and a member of our Board of Directors on June 6, 2007. On September 10, 2007, Roger A. Newell resigned as our Vice President of Development. He continues to serve as a member of our Board of Directors.

Compliance with Section 16(a) of The Securities Exchange Act of 1934

To our knowledge, during the fiscal year ended July 31, 2008, based solely on a review of such materials as are required by the Securities and Exchange Commission, no officer, director or beneficial holder of more than ten percent of our issued and outstanding shares of Common Stock failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, except that Mr. Roningen filed forms 4 late with regard to six transactions, Mr. Brownlie filed forms 4 late with regard to two transactions and Messrs. Dieterle, Pritchard, Chipman, Hazlitt, Shaw, Postle and Nesbit each filed a form 4 late with regard to one transaction.

Meetings And Committees Of The Board

Our Board of Directors is responsible for the management and direction of our company and for establishing broad corporate policies. A primary responsibility of the Board is to provide effective governance over our affairs for the benefit of our stockholders. In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be the best interests of our company. In discharging that obligation, Directors may rely on the honesty and integrity of our senior executives and our outside advisors and auditors.

The Board of Directors and the Audit Committee of the Board meet periodically throughout the year to receive and discuss operating and financial reports presented by our executive officers as reports by experts and other advisors. The Board held five meetings during the fiscal year ended July 31, 2008 in person and telephonically, and acted by unanimous written consent on three occasions. All directors attended 90% or more of the aggregate meetings.

In fiscal 2008, the Audit Committee, consisting of all of the non-employee members of the Board of Directors, met on four occasions. Representatives of our auditor were in attendance at one meeting without management present.

Our Board of Directors has no standing nominating committee because this function is handled by the Board of Directors. Nominees to the Board of Directors are selected by the Board of Directors based on current business and

industry knowledge as well as general business knowledge.

Audit Committee and Audit Committee Expert.

The Audit Committee of our Board of Directors consists of Ian A. Shaw, Committee Chairman, John Postle and Mark T. Nesbitt. The Board of Directors has determined that all three members are independent directors as (i) defined in Rule 10A-3(b)(1)(ii) under the Securities Exchange Act of 1934 (the "Exchange Act") and (ii) under Section 121B(2)(a) of the AMEX Company Guide (although our securities are not listed on the American Stock Exchange or any other national exchange). The Audit Committee met four times telephonically in fiscal 2008. All committee members were present at the meetings.

Mr. Shaw serves as the financial expert as defined in Securities and Exchange Commission rules on the committee. We believe Messrs. Shaw, Postle and Nesbitt to be independent of management and free of any relationship that would interfere with their exercise of independent judgment as members of this committee. The principal functions of the Audit Committee are to (i) assist the Board in fulfilling its oversight responsibility relating to the annual independent audit of our consolidated financial statements, the engagement of the independent registered public accounting firm and the evaluation of the independent registered public accounting firm's qualifications, independence and performance (ii) prepare the reports or statements as may be required by the securities laws, (iii) assist the Board in fulfilling its oversight responsibility relating to the integrity of our financial statements and financial reporting process and our system of internal accounting and financial controls, (iv) discuss the financial statements and reports with management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management, and (vi) review disclosures by independent accountants concerning relationships with us and the performance of our independent accountants.

Compensation Committee.

Our Compensation Committee consists of Messrs. Shaw, Postle and Nesbitt, our independent directors. The principal functions of the Compensation Committee are to advise and makes recommendations to our Board of Directors regarding matters relating to the compensation of directors, officers and senior management. The Compensation Committee met three times telephonically in fiscal 2008. All committee members were present at the meetings.

Communication with the Board of Directors

Interested parties wishing to contact our Board of Directors may do so by writing to the following address: Board of Directors, 76 Beaver Street, 14th Floor, New York, NY 10005, Attn: Jeffrey W. Pritchard, Secretary. All letters received will be categorized and processed by Mr. Pritchard and then forwarded to our Board of Directors.

Code of Ethics

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

Item 11. Executive Compensation

Compensation Discussion and Analysis

Objectives and Philosophy of Executive Compensation

The primary objectives of the Compensation Committee with respect to executive compensation are to attract and retain the most talented and dedicated executives possible, to tie annual and long-term cash and stock incentives to achievement of measurable performance objectives, and to align executives' incentives with stockholder value creation. To achieve these objectives, the compensation committee expects to implement and maintain compensation plans that tie a substantial portion of executives' overall compensation to the experience level of the executive or employee, the complexity and amount of responsibility of the employee’s job, key strategic financial and operational goals such as the establishment and maintenance of key strategic relationships, the development and operation of our mining projects, the identification and possible development of additional mining properties and the performance of our common stock price. The compensation committee evaluates individual executive performance with the goal of setting compensation at levels the compensation committee believes are comparable with executives in other companies of similar size and stage of development operating in the mining industry while taking into account our relative performance and our own strategic goals. It is our general practice to grant equity-based awards to executives and employees.

The Compensation Committee engaged Mosteller & Associates, Inc. (“Mosteller”), an independent executive compensation consulting firm, to provide advice and assistance in the area of executive and director compensation. Mosteller conducted a review of the total compensation of the Company’s executive officers and prepared reports for the review of the Compensation Committee that were subsequently used in determining the appropriate levels of compensation for each executive officer. Specifically, in accordance with the scope directed by the Compensation Committee, Mosteller reviewed the compensation packages paid to the Company’s executives in 2006 and 2007, selected peer sources against which to compare the data and analyzed comparable compensation packages using appropriate regression analyses.

To evaluate the Company’s compensation packages, Mosteller identified four sources of comparison: (1) mining companies with revenues less than $10 million and less than 100 employees that are headquartered in the northeastern United States; (2) mining and natural resources divisions of utility companies with revenues less than $50 million and less than 100 employees that are headquartered in the States; (3) energy companies with revenues less than $50 million that are headquartered in the United States; and (4) a custom peer group of mining companies that included Golden Star Resources, LTD, Miramar, Northgate, Royal Gold, Inc., Coeur d’Alene Mines Corp., and Meridian Gold. The Company believes that the companies in this custom peer group provide a good basis of comparison because, similar to the Company, they are operational, are producing product and have sizable assets and revenue streams.

Elements of Executive Compensation

Executive compensation consists of the following elements:

Regular Compensation

Regular compensation for our executives will be established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, we believe that executive base salaries should be targeted near the median of the range of salaries for executives in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Regular compensation will be reviewed annually, and adjusted from time to time to realign salaries with market levels after taking into account individual responsibilities, performance and experience. This review will occur in the fourth fiscal quarter of each year.

Compensation to new executives is based entirely upon similar factors to those discussed above for regular employees and executives and timing is determined solely by needs of our company, some of which can be completely unforeseen, such as resignations or terminations for cause.

Post-termination compensation is fixed in the employment agreement of each executive, and generally, post-termination payments are not offered to non-executive employees.

The Chief Executive Officer attends the Compensation Committee meetings as management's representative. No other executives participate in the compensation process or attend the Compensation Committee meetings. The CEO evaluates and provides performance assessments and compensation recommendations for each of the executive officers other than himself to the Compensation Committee. The Compensation Committee considers these recommendations in its deliberations to set executive compensation. The Compensation Committee reviews the compensation package of the CEO and determines the compensation package of the CEO in an executive session that the CEO does not attend. The CEO does not engage in discussions with the Compensation Committee or the Compensation Committee's independent compensation consulting firm regarding his compensation package.

Annual Bonus

Our compensation program includes eligibility for an annual performance-based cash and/or equity- based bonus (See "2006 Equity Incentive Plan" below) in the case of all executives and certain non-executive employees. The amount of the cash and/or equity-based bonus will depend on the level of achievement of the financial and operational goals and for achieving individual annual performance objectives. These objectives will vary depending on the individual executive, but will relate generally to strategic factors such as establishment and maintenance of key strategic relationships, the development and operation of our mining projects, the identification and possible development of additional mining properties, and to financial factors such as raising capital and improving our results of operations. Bonuses, if awarded, will generally be determined at the sole discretion of the Board of Directors as recommended by the compensation committee.

The Company did not establish corporate or individual performance targets prior to, or at the beginning of, fiscal year 2008. At the conclusion of fiscal 2008, the Compensation Committee reviewed the performance of the Company and each executive during fiscal 2008. The Compensation Committee noted several achievements, including, but not limited to, the increase in ore mined, the increase in ounces produced, the increase in the proceeds from sales of gold and silver, the increase in gold reserves, and the completion of certain capital and plant upgrades.

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All employees, whether executives or key employees, as well as administrative staff, will be granted bonus compensation at the same time. All efforts are made by senior management, the compensation committee and the Board of Directors to avoid issuances of stock as compensation that would create even the appearance of being timed to the release of material non-public information.

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 our employees, consultants, and non-employee directors, to encourage employee and director proprietary interests in us, and to encourage employees to remain in our 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 our Board of Directors which has delegated the administration to our Compensation Committee. The Plan provides for Awards to be made to such of our employees, directors and consultants and our affiliates as the Board may select.

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

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 our 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.

Although non-cash compensation is utilized by us to prevent placing strains on liquidity, care is taken by management to avoid materially diluting investors.

On December 20, 2007, at the recommendation of the Compensation Committee, the Company's executive officers, directors and employees were granted 1,095,000 restricted shares under our 2006 Equity Incentive Plan (the "Plan") as bonus compensation. The restricted shares were granted as follows: Gifford Dieterle – 250,000, John Brownlie – 250,000, Jeffrey Pritchard – 250,000, Christopher Chipman – 250,000, Scott Hazlitt – 75,000 and two employees received an aggregate of 20,000 restricted shares. The fair market value of the restricted stock on the date of grant was $0.63. The restricted shares granted vest equally over three years from the date of grant.

Also on December 20, 2007, at the recommendation of the Compensation Committee, the Company's executive officers and employees were granted 3,150,000 stock options under our Plan as bonus compensation. The stock options were granted as follows: Gifford Dieterle - 500,000 options, John Brownlie – 500,000 options, Christopher Chipman – 500,000 options, Jeffrey Pritchard – 500,000 options, Scott Hazlitt – 350,000 options, Ian Shaw – 150,000 options, John Postle – 150,000 options, Mark Nesbitt – 150,000 options, Roger Newell – 100,000 options, Robert Roningen – 100,000 stock options, and other non-executive employees – 150,000. The stock options have a term of seven years and vest over five years as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is $0.63 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars).

The stock options and restricted stock awarded on December 20, 2007 were granted as a method to provide incentive compensation to the Company's executive officers, directors and employees. The Compensation Committee believes that the recipients are motivated by the potential appreciation of the stock price over time and will remain committed to the Company while the grants vest.

On July 17, 2008, at the recommendation of the Compensation Committee, the Company's executive officers and directors were granted 515,000 restricted shares under our Plan as bonus compensation for the fiscal year ended July 31, 2008. The restricted shares were awarded as follows: Gifford Dieterle – 100,000, John Brownlie – 100,000, Jeffrey Pritchard – 100,000, Christopher Chipman – 100,000, Scott Hazlitt – 50,000, Ian Shaw – 15,000, John Postle – 15,000, Mark T. Nesbitt – 15,000, Roger Newell -10,000 and Robert Roningen – 10,000. The Compensation Committee determined that because this grant constituted compensation for services rendered, the restricted shares granted vested immediately. The fair value of the Company's stock was $0.70 on the date of grant. These restricted shares were awarded as part of the Company's bonus award and were designed to reward the recipients for services rendered.

In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall end on the earlier of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest.

Employment and Engagement Agreements

We 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, we entered into an employment agreement with J. Scott Hazlitt, Vice President of Mine Development.

On June 6, 2007, Jack V. Everett resigned as Vice President of Exploration and a Director of our company and entered into a consulting agreement with us to provide mining and mineral exploration consultation services.

On September 10, 2007, Roger A. Newell resigned as Vice President of Development. He will continue to serve as a member of our Board of Directors.

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 $125,000 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 our common stock at an exercise price of $0.32 per share (the closing price on July 31, 2006). These options have all been exercised. As discussed below, these agreements have been amended to provide for salary increases.

We have 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 our reputation. In the event that we terminate 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 us of any of the terms of the agreement, upon 30 days’ prior written notice. In the event of a claim of material breach by us of the agreement, the executive must specify the breach and its failure to either (i) cure or diligently commence to cure the breach within the 30 day notice period, or (ii) dispute in good faith the existence of the material breach. In the event that an agreement terminates due to our 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 us. Severance payments cannot exceed 12 month’s salary.

In conjunction with the employment agreements, our 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 our 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 continue through December 31, 2011 and automatically renews for successive one-year periods unless either party provides the other party with written notice of its intent not to renew at least thirty (30) days prior to the expiration of the then current term. 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 us 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 us for any reason other than permanent disability or cause, as defined in the agreement (2) by the executive for good reason as defined in the agreements or, (3) by the executive for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control. Each executive would receive a lump sum cash payment of three times his base salary and three times his bonus award for the prior year, as well as outplacement benefits. Each agreement also provides that the executive is entitled to a payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

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

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

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

resolution that a Potential Change of Control exists, which resolution has not been modified.

On September 14, 2007, we entered into a Second Amended Engagement Agreement (the “Agreement”) with Christopher Chipman, our Chief Financial Officer, effective May 1, 2007. The Agreement supersedes and replaces Mr. Chipman’s prior agreement that expired on August 31, 2007. He receives a monthly fee of $14,583. Mr. Chipman can terminate the Agreement on 60 days prior notice. We can terminate the Agreement without cause on 30 days prior notice and for cause (as defined in the Agreement). The Agreement also terminates upon Mr. Chipman’s disability (as defined in the Agreement) or death. In the event that we terminate the Agreement without cause, Mr. Chipman will be entitled to a cash termination payment equal to his Annual Fee in effect upon the date of termination, payable in equal monthly installments beginning in the month following his termination. In the event the Agreement is terminated by Mr. Chipman at his election or due to his death or disability, Mr. Chipman will be entitled to the fees otherwise due and payable to him through the last day of the month in which such termination occurs. In conjunction with Agreement, we entered into a change of control agreement similar to the agreements entered into with our other executive officers. In connection with the original engagement agreement with Mr. Chipman in March 2006, Mr. Chipman received a two year option to purchase an aggregate of 50,000 shares of our common stock at an exercise price of $.34 per share. This option has been exercised in full.

On May 12, 2006, we entered into an employment agreement with John Brownlie, pursuant to which Mr. Brownlie originally served as Vice President Operations. Mr. Brownlie became our Chief Operating Officer in February 2007. 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 our common stock at an exercise price of $.32 per share. 50,000 options vested immediately and the balance vest upon our achieving "Economic Completion" as that term is defined in the Standard Bank Credit Facility (when we have 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. We can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that we terminates him without cause or he terminates due to our breach, he will be entitled to certain severance payments. We utilized the Black-Scholes method to fair value the 200,000 options received by Mr. Brownlie. We 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.

On August 29, 2007, at the recommendation of the compensation committee, the Board increased the salaries of our executive officers to be commensurate with industry standards and amended their respective agreements accordingly. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, $250,000; John Brownlie, Chief Operating Officer, $225,000; Christopher Chipman, Chief Financial Officer, $175,000 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, $195,000; Roger A. Newell, Vice President - Development, $135,000; and J. Scott Hazlitt, Vice President - Mine Development, $135,000. The salary increase for Mr. Brownlie and the consulting fee increase for Mr. Chipman were retroactive to May 1, 2007 and the salary increase for Mr. Pritchard is retroactive to August 1, 2007.

On July 17, 2008, at the recommendation of the compensation committee of our Board of Directors, our executive officers were awarded salary increases effective August 1, 2008. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, $287,500; John Brownlie, Chief Operating Officer, $258,750; Christopher Chipman, Chief Financial Officer, $201,250 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, $224,250; and J. Scott Hazlitt, Vice President - Mine Development, $155,250.

On October 28, 2008, we entered into an Engagement Agreement with John Brownlie, our Chief Operating Officer. The agreement supersedes a May 12, 2006 employment agreement between us and Mr. Brownlie. Pursuant to the Engagement Agreement, Mr. Brownlie serves as our Chief Operating Officer and receives a base annual fee of at least $258,750 and is entitled to annual bonuses. The Engagement Agreement runs through August 31, 2009, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. We can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that we terminate him without cause or he terminates due to our breach, he will be entitled to certain severance payments. We previously entered into a change of control agreement with Mr. Brownlie similar to the agreements entered into with our other executive officers.

Compensation of Directors

During the fiscal year ended July 31, 2007, our Independent Directors each received a fee of $1,000 per month. Robert Roningen, director, received a fee of $2,000 per month for legal and consulting services during the fiscal year ended July 31, 2007. Non-independent directors were not otherwise compensated for acting in their capacity as Directors. Directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties. On August 29, 2007, we increased directors' compensation to our independent directors and to Robert Roningen and Roger Newell by $1,000 per month.

On July 17, 2008, at the recommendation of the Compensation Committee, the Company's non-executive directors were granted 65,000 restricted shares under our Plan as bonus compensation for the fiscal year ended July 31, 2008. The Compensation Committee determined that this grant constituted compensation for services rendered, the restricted shares granted vested immediately. Each independent, non-executive director, Ian Shaw, John Postle and Mark T. Nesbitt, received 15,000 restricted shares and each non-executive director, Roger Newell and Robert Roningen, received 10,000 restricted shares. The fair value of the Company's stock was $0.70 on the date of grant.

On December 20 2007, at the recommendation of the Compensation Committee, the Company's non-executive directors were granted 650,000 stock options under our Plan as bonus compensation. Each independent, non-executive director, Ian Shaw, John Postle and Mark T. Nesbitt, received 150,000 stock options and each non-executive director, Roger Newell and Robert Roningen, received 100,000 stock options. The stock options have a term of seven years and vest as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is $0.63 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). These stock option grants were issued as incentive based compensation. In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall end on the earlier of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest.

The stock options awarded on December 20, 2007 were granted as a method to provide incentive compensation to the Company's non-executive directors. The Compensation Committee believes that the recipients are motivated by the potential appreciation of the stock price over time and will remain committed to the Company while the grants vest.

Conclusion

Our compensation policies are designed to retain and motivate our senior executive officers and to ultimately reward them for outstanding individual and corporate performance.

Summary Compensation Table

The following tables set forth the total compensation paid to or earned by our named executive officers, as that term is defined in Item 402(a)(3) of Regulation S-K as of our fiscal years ended July 31, 2008 and 2007, respectively (000's):

Name & Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards (2)	Option Awards (1)	Non-Equity Incentive Plan Compen-sation	Non-qualified Deferred Compen-sation Earnings	All Other Compen-sation ($)	Total ($)
Gifford A. Dieterle, Director, Chairman, Treasurer and CEO	2008	$ 244	$ 325	$ 102	$ 60	$ -	$ -	$ -	$ 731
	2007	$ 180	$ -	$ -	$ -	$ -	$ -	$ -	$ 180
John Brownlie, Director and COO	2008	$ 275	$ 318	$ 102	$ 112	$ -	$ -	$ -	$ 807
	2007	$ 150	$ -	$ 225	$ 34	$ -	$ -	$ -	$ 409
Jeffrey Pritchard, Executive Vice President	2008	$ 189	$ 284	$ 102	$ 60	$ -	$ -	$ -	$ 635
	2007	$ 120	$ -	$ -	$ -	$ -	$ -	$ -	$ 120

(1) Amounts shown reflect amounts of option awards recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standard No. 123R, using the Black-Scholes option-pricing model and include amounts from stock option awards granted in fiscal 2008. Refer to Note 16 to the Company's Consolidated Financial Statements for a discussion of assumptions made in the valuation of option awards. During fiscal 2008, option awards were comprised of: 1) 500,000 stock options issued each to Gifford A. Dieterle, John Brownlie and Jeffrey Pritchard at an exercise price of $0.63, 2) 150,000 stock options issued to John Brownlie at an exercise price of $0.34 that vested during the period.. During fiscal 2007, option awards were comprised of 250,000 stock options issued to John Brownlie at an exercise price of $0.36.

(2)

Amounts shown represent the amount of restricted stock award recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standard No. 123R and include amounts from restricted stock awards granted in fiscal 2008. Refer to Note 16 to the Company's Consolidated Financial Statements for a discussion of assumptions made in the valuation of restricted stock awards. During fiscal 2008, restricted stock awards were comprised of: 1) 250,000 shares of restricted stock issued each to Gifford A. Dieterle, John Brownlie and Jeffrey Pritchard at the fair value of the Company's stock on the date of grant of $0.63, 2) 100,000 shares of restricted stock issued each to Gifford A. Dieterle, John Brownlie and Jeffrey Pritchard at the fair value of the Company's stock on the date of grant of $0.70. During fiscal 2007, restricted stock awards were comprised of 500,000 shares of restricted stock issued to John Brownlie at the fair value of the Company's stock on the date of grant of $0.45.

Outstanding Equity Awards At Fiscal Year-End (000's except share data)

The following tables provide information concerning unexercised options for each of our named executive officers, as that term is defined in Item 402(a)(3) of Regulation S-K as of our fiscal year ended July 31, 2008:

2008 Table

Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date
Gifford A. Dieterle, Director, Chairman, Treasurer and CEO	150,000	350,000	350,000	$ 0.63	12/20/14
John Brownlie, Director and COO	150,000	350,000	350,000	$ 0.63	12/20/14
Jeffrey Pritchard, Executive Vice President	150,000	350,000	350,000	$ 0.63	12/20/14

Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Gifford A. Dieterle, Director, Chairman, Treasurer and CEO	250,000	$ 83	151,142	$ 103
John Brownlie, Director and COO	200,000	$ 72	151,142	$ 103
Jeffrey Pritchard, Executive Vice President	250,000	$ 88	151,142	$ 103

Please also see "Part III, Item 13. Certain Relationships and Related Transactions" below.

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee of the Board of Directors, consisting of Ian Shaw, the Committee Chairman, John Postle and Mark T. Nesbitt, are all independent directors. There are no interlocking relationships.

COMPENSATION COMMITTEE REPORT

Our Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Annual Report with management. Based on our Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, our Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in the our Annual Report on Form 10-K for the fiscal year ended July 31, 2008 for filing with the SEC.

COMPENSATION COMMITTEE
Ian Shaw, Committee Chairman
John Postle
Mark T. Nesbitt

The foregoing Compensation Committee report shall not be deemed incorporated by reference into any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under these acts, except to the extent we specifically incorporate this report by reference into such filings.

Director Compensation

The following tables sets forth the compensation paid to our directors for the fiscal year ended July 31, 2008 (000's).

2008 Table

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (2)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
Ian A. Shaw, Director	$ 24	$ 11	$ 3	$ -	$ -	$ -	$ 38
John Postle, Director	$ 24	$ 11	$ 3	$ -	$ -	$ -	$ 38
Mark T. Nesbitt, Director	$ 24	$ 11	$ 3	$ -	$ -	$ -	$ 38
Roger Newell, Direcotr	$ 12	$ 7	$ 2	$ -	$ -	$ -	$ 21
Robert Roningen, Director	$ 12	$ 7	$ 2	$ -	$ -	$ 24	$ 45

(1) Amounts shown reflect amounts of option awards recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standard No. 123R, using the Black-Scholes option-pricing model and include amounts from stock option awards granted in fiscal 2008. Refer to Note 16 to the Company's Consolidated Financial Statements for a discussion of assumptions made in the valuation of option awards. During fiscal 2008, option awards were comprised of: 1) 150,000 stock options issued each to Ian Shaw, John Postle and Mark T. Nesbitt at an exercise price of $0.63, 2) 100,000 stock options issued to Roger Newell and Robert Roningen at an exercise price of $0.63.

(2) Amounts shown represent the amount of restricted stock award recognized for financial statement reporting purposes in accordance with Statement of Financial Accounting Standard No. 123R and include amounts for awards granted in fiscal 2008. Refer to Note 16 to the Company's Consolidated Financial Statements for a discussion of assumptions made in the valuation of restricted stock awards. During fiscal 2008, restricted stock awards were comprised of: 1) 15,000 shares of restricted stock issued each to Ian Shaw, John Postle and Mark T. Nesbitt at the fair value of the Company's stock on the date of grant of $0.70, 2) 10,000 shares of restricted stock issued each to Roger Newell and Robert Roningen at the fair value of the Company's stock on the date of grant of $0.70.

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

The following table sets forth as of October 24, 2008, the number and percentage of outstanding shares of Common Stock beneficially owned by:

- Each person, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of our issued and outstanding Common Stock;
- Each of our Directors and the Named Executives; and
- All of our officers and Directors as a group.

As of the foregoing date, there were no other persons, individually or as a group, known to us to be deemed the beneficial owners of five percent or more of the issued and outstanding Common Stock.

This table is based upon information supplied by Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission, and information obtained from our directors and named executives. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock which such person has the right to acquire within 60 days of October 3, 2008. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named in the table, any security which such person or persons has or have the right to acquire within such date is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, we believe, based on information supplied by such persons, that the persons named in this table have sole voting and investment power with respect to all shares Common Stock which they beneficially own. Unless otherwise noted, the address of each of the principal stockholders is care of us at 76 Beaver Street, 14th floor, New York, NY10005.

Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Approximate Percentage(1)
Gifford A. Dieterle*	3,612,455(2)	1.9%
Robert Roningen* 2955 Strand Road Duluth, MN 55804	1,828,750(3)	**
Jeffrey W. Pritchard*	1,856,354(2)	1.0%
Christopher Chipman* 4014 Redwing Lane Audubon, PA 19407	1,500,000(2)	**
Roger A Newell* 1781 South Larkspur Drive Golden, CO 80401	1,537,273(2)	**
John Brownlie* 6040 Puma Ridge Littleton, CO 80124	1,599,500(2)	**
Scott Hazlitt* 9428 W. Highway 50 Salida. CO 81201	1,500,000(2)	**
Ian A. Shaw* 98 Crimson Millway Toronto, Ontario M2LIT6 Canada	265,000(2)	**
John Postle* 2169 Constance Drive Oakville Ontario Canada L6j 5l2	265,000(2)	**
Mark T. Nesbitt* 1580 Lincoln St., Ste. 700 Denver CO 80203-1501	306,666(2)(4)	**
Strategic Precious Metal Fund c/o Banque Cantonale Vaoudoise Place St-Francois 14 1003 Lausanne, Switzerland	12,500,000	6.5%

SPGP 17, Avenue Matignon 75008 Paris, France	11,250,000(5)	5.8%
Standard Bank PLC 320 Park Avenue New York, NY 10022	15,750,000	8.2%
Van Eck International Investors Gold Fund 99 Park Avenue New York, NY 10016 and Van Eck Long/Short Gold Portfolio Ltd. Ogier Fiduciary Services PO box 1234 Queensgate House South Church Street Georgetown Grand Cayman, Cayman Islands	10,000,000(6)	5.2%
All Officers and Directors as a Group (10 persons)	14,270,998(2)(3)(4)	7.2%

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* Officer and/or Director of Capital Gold.
** Less than 1%.

(1) Based upon 192,974,824 shares issued and outstanding as of October 24, 2008.

(2) For Messrs. Dieterle, Roningen, Pritchard, Chipman, Newell, Brownlie, Hazlitt, Shaw, Postle and Nesbitt includes, respectively, 500,000 shares, 100,000 shares, 500,000 shares, 1,100,000 shares, 100,000 shares, 750,000 share, 350,000 shares, 250,000 shares, 250,000 shares and 250,000 shares issuable upon exercise of options.

(3) Represents shares owned by Mr. Roningen's wife. All of the foregoing shares are pledged as collateral for payment of a bank note.

(4) Includes shares owned jointly with his wife.

(5) We have been advised that Xavier Roulet, is a natural person with voting and investment control over shares of our common stock beneficially owned by SPGP.

(6) Represents shares owned by the listed stockholders. Separately, the stockholders do not beneficially own in excess of 5% of our outstanding shares of Common Stock. However, both stockholders have identified Joseph Foster as a natural person with voting and investment control over shares of our common stock beneficially owned by the stockholders. Mr. Foster is the portfolio manager for Van Eck Associates Corporation and Van Eck Absolute Return Advisers Corp., the investment advisors for, respectively, Van Eck International Investors Gold Fund and Van Eck Long/Short Gold Portfolio Ltd.

Item 13. Certain Relationships and Related Transactions, and Director Independence (dollars in thousands).

In August 2002, we purchased marketable equity securities of a related company. We recorded approximately $6, $9 and $10 in expense reimbursements including office rent from this entity for the years ended July 31, 2008, 2007 and 2006, respectively.

We utilize Caborca Industrial, a Mexican corporation that is 100% owned by Gifford A. Dieterle, our Chief Executive Officer, and Jeffrey W. Pritchard, our Executive Vice President, for mining support services. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills us for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately $3,775, $702 and $122 for the years ended July 31, 2008, 2007 and 2006, respectively.

During the years ended July 31, 2008, 2007 and 2006, we paid Jack Everett, a former officer and director, consulting fees of $100, $0 and $69, respectively. In addition, this individual earned wages of $120 and $50 during the year ended July 31, 2007 and 2006, respectively. Also, during the years ended July 31, 2008, 2007 and 2006, we paid Robert Roningen, a director legal and consulting fees of $35, $24 and $8, respectively.

In January 2006, we extended the following stock options through January 3, 2007, all of which are exercisable at $0.05 per share: Gifford A. Dieterle, Chief Executive Officer and Director – 1,250,000 shares; Robert Roningen, Director – 500,000 shares; Jeffrey W. Pritchard, V.P. Investor Relations and Director – 327,727 shares; Roger Newell, V.P. Development and Director – 500,000 shares; and Scott Hazlitt, 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.

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.

The Company's V.P. Development and Director, Roger Newell, 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 year ended July 31, 2006.

On December 20, 2007, at the recommendation of the Compensation Committee of the Board of Directors, our executive officers, directors and employees were granted 1,095,000 restricted shares under our 2006 Equity Incentive Plan. The restricted shares granted vest equally over three years from the date of grant. In addition, our executive officers were granted 3,150,000 stock options under our 2006 Equity Incentive Plan. The stock options have a term of seven years and vest as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is $0.63 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan, unvested stock options shall

terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon the happening of a change of control, all unvested stock options and unvested restricted stock grants immediately vest.

On July 17, 2008, at the recommendation of the Compensation Committee of the Board of Directors, our executive officers and directors were granted 515,000 shares under our 2006 Equity Incentive Plan. The restricted shares granted vested immediately.

We have employment and consulting agreements with our executive officers. Please see "Item 11. Executive Compensation; Employment and Engagement Agreements."

For information about the independence of our directors please see "Item 10. Directors, Executive Officers and Corporate Governance; Audit Committee and Audit Committee Expert."

Item 14. Principal Accountant Fees And Services.

All audit and professional services provided by Wolinetz, Lafazan & Company, P.C. (“WL”), Certified Public Accountants, will be approved in advance by the Audit Committee to assure such services do not impair the auditor's independence from us. The total aggregate fees billed by WL were $125, $140 and $62 for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. The following table shows the detailed fees billed to us by WL for professional services rendered during these fiscal years.

	Amount ($000’s)		
Description of Fees	2008	2007	2006
Audit Fees	$ 115	$ 130	$ 55
Audit-Related Fees	-	-	-
Tax Fees	10	10	7
All Other Fees	-	-	-
Total	$ 125	$ 140	$ 62

Audit Fees

Represents fees for professional services provided for the audit of our annual financial statements, services that are performed to comply with generally accepted auditing standards, and review of our financial statements included in our quarterly reports and services in connection with statutory and regulatory filings.

Audit-Related Fees

Represents the fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. The Board of Directors considers WL to be well qualified to serve as our independent public accountants.

The Audit Committee will pre-approve all auditing services and the terms thereof (which may include providing comfort letters in connection with securities underwriting) and non-audit services (other than non-audit services prohibited under Section 10A(g) of the Exchange Act or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided to us by the independent auditor; provided, however, the pre-approval requirement is waived with respect to the provisions of non-audit services for us if the "de minimus" provisions of Section 10A(i)(1)(B) of the Exchange Act are satisfied. This authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision. The Audit Committee may review and approve the scope and staffing of the independent auditors' annual audit plan.

Tax Fees

This represents professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

WL was paid no other fees for professional services during the fiscal years ended July 31, 2008 and 2007.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

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

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

(b) Exhibits

3.1 Certificate of Incorporation of Company.(20)
3.2 Amendments to Certificate of Incorporation of Company.(17)(21)
3.3 Certificate of Merger (Delaware) (which amends our Certificate of Incorporation)(20)
3.4 Amended and Restated By-Laws of Company(22)

4.1 Specimen certificate representing our Common Stock.(8)
4.2 Form of Warrant for Common Stock of the Company issued in February 2005 private placement.(7)
4.3 Form of Warrant for Common Stock of the Company issued to Standard Bank in 2005.(9)
4.4 Form of Warrant for Common Stock of the Company issued in February and March 2006 private placement.(13)
4.5 Form of Warrant for Common Stock of the Company issued in the January 2007 private placement.(16)
4.6 Form of Placement Agent Warrant for Common Stock of the Company issued in the January 2007 private placement.(16)
4.7 Form of Warrant for Common Stock of the Company issued to Standard Bank in 2008.(25)

10.1 Mining Claims (1)
10.2 Stock Purchase Option Agreement from AngloGold (2)
10.3 Letter of Intent with International Northair Mines Ltd. (2)
10.4 March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement (Sale by us and Holding of all of the stock of Minera Chanate) (In Spanish).(3)
10.5 English summary of March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement.(3)
10.6 Agreement between Santa Rita and Grupo Minero FG.(4)
10.7 Amendment to Agreement between Santa Rita and Grupo Minero FG.(5)
10.8 Termination Agreement between Santa Rita and Grupo Minero FG.(6)
10.9 English summary of El Charro agreement. (10)
10.10 Plan and agreement of merger (reincorporation). (11)
10.11 Contract between MSR and Sinergia Obras Civiles y Mineras, S.A. de C.V.(12)

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10.12	Amendment to Contract between MSR and Sinergia Obras Civiles y Mineras, S.A. de C.V. (18)
10.13	Chipman Second Amended Engagement Agreement.(25)
10.14	Employment Agreement with John Brownlie. (15)(23)
10.15	June 1, 2006 EPCM agreement between MSR and a Mexican subsidiary of M3 Engineering & Technology Corporation (15)
10.16	Credit Agreement dated August 15, 2006 among MSR and Oro, as the borrowers, the Company, as the guarantor, and Standard Bank PLC, as the lender and the offshore account holder. (14)
10.17	Employment Agreement with Gifford A. Dieterle. (18)
10.18	Employment Agreement with Jeffrey W. Pritchard. (18)
10.19	Employment Agreement with J. Scott Hazlitt.(25)
10.20	2006 Equity Incentive Plan. (19)
10.21	Amendment to Employment Agreement with Gifford A. Dieterle. (24)
10.22	Amendment to Employment Agreement with Jeffrey W. Pritchard. (24)
10.23	Amendment to Employment Agreement with John Brownlie. (24)
10.24	Amendment to Employment Agreement with J. Scott Hazlitt. (24)
10.25	Amendment to Employment Agreement with Gifford A. Dieterle.(25)
10.26	Amendment to Employment Agreement with Jeffrey W. Pritchard.(25)
10.27	Amendment to Employment Agreement with John Brownlie.(25)
10.28	Amendment to Employment Agreement with J. Scott Hazlitt.(25)
10.29	Amendment to Engagement Agreement with Christopher Chipman.(25)
10.30	Engagement Agreement with John Brownlie.(25)
10.31	Amended And Restated Credit Agreement with Standard Bank.(25)
10.32	Service Agreement between Caborca Industrial S.A. de C.V. and Minera Santa Rita, S. De R.L. De C.V., dated March 23, 2005.
21	Subsidiaries of the Registrant. (8)
23.1	Consent of Wolinetz, Lafazan & Company, P.C., independent registered public accountants.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Executive Officer
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer

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(1) Previously filed as an exhibit to the Company's Registration Statement on Form S-18 (SEC File No. 2-86160-NY) filed on or about November 10, 1983, and incorporated herein by this reference.

(2) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 2001 filed with the Commission on or about March 16, 2001, and incorporated herein by this reference.

(3) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 2002 filed with the Commission on or about June 20, 2002, and incorporated herein by this reference.

(4) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 2002 filed with the Commission on or about March 25, 2002, and incorporated herein by this reference.

(5) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about January 22, 2004, and incorporated herein by this reference.

(6) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about April 12, 2004, and incorporated herein by this reference.

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

(8) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (SEC file no. 333-123216) filed with the Commission on or about March 9, 2005, and incorporated herein by this reference.

(9) Previously filed as an exhibit to Amendment No. 1 to the Company's Registration Statement on Form SB-2 (SEC file no. 333-123216) filed with the Commission on or about June 27, 2005, and incorporated herein by this reference.

(10) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 2005 filed with the Commission on or about June 20, 2005, and incorporated herein by this reference.

(11) Previously filed as Appendix B to the Company's Definitive 14A Proxy Statement filed with the Commission on or about October 7, 2005, and incorporated herein by this reference.

(12) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended October 31, 2005 filed with the Commission on or about December 15, 2005, and incorporated herein by this reference.

(13) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about February 16, 2006, and incorporated herein by this reference.

(14) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about August 16, 2006, and incorporated herein by this reference.

(15) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended April 30, 2006 filed with the Commission on or about June 19, 2006, and incorporated herein by this reference.

(16) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about January 29, 2007, and incorporated herein by this reference.

(17) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended January 31, 2007 filed with the Commission on or about March 19, 2007, and incorporated herein by this reference.

(18) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2006 filed with the Commission on or about November 1, 2006, and incorporated herein by this reference.

(19) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended October 31, 2006 filed with the Commission on or about December 19, 2006, and incorporated herein by this reference.

(20) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (SEC file no. 333-129939) filed with the Commission on or about November 23, 2005, and incorporated herein by this reference.

(21) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about January 30, 2008, and incorporated herein by this reference.

(22) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about April 17, 2008, and incorporated herein by this reference.

(23) Previously filed as an exhibit to the Company's Quarterly Report on Form 10-QSB for the quarter ended October 31, 2007 filed with the Commission on or about December 17, 2007, and incorporated herein by this reference.

(24) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2007 filed with the Commission on or about October 23, 2007, and incorporated herein by this reference.

(25) Previously filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2008 filed with the Commission on or about October 23, 2008, and incorporated herein by this reference.

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

SIGNATURES

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

		CAPITAL GOLD CORPORATION
Dated: February 13, 2009	By:	/s/ Gifford A. Dieterle, President Gifford A. Dieterle, President

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SUPPLEMENTAL INFORMATION

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

NOT APPLICABLE.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Capital Gold Corporation and Subsidiaries ("the Company") as of July 31, 2008 and July 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Gold Corporation and Subsidiaries as of July 31, 2008 and July 31, 2007 and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
October 28, 2008 (Except for Note 26, as to which the date is February 6, 2009)

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

	July 31, 2008	July 31, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$ 10,992	$ 2,225
Accounts Receivable (Note 2)	1,477	-
Stockpiles and Ore on Leach Pads (Note 5)	12,176	2,997
Material and Supply Inventories (Note 4)	937	174
Deposits (Note 6)	9	879
Marketable Securities (Note 3)	65	90
Prepaid Expenses	219	72
Loans Receivable – Affiliate (Note 12 and 14)	39	47
Other Current Assets (Note 7)	490	1,675
Total Current Assets	26,404	8,159
Mining Concessions (Note 11)	59	68
Property & Equipment – net (Note 8)	20,918	18,000
Intangible Assets – net (Note 9)	181	577
Other Assets:		
Other Investments	-	28
Deferred Financing Costs (Note 17)	599	581
Mining Reclamation Bonds (Note 10)	82	36
Other	-	42
Deferred Tax Asset (Note 22)	573	-
Security Deposits	63	60
Total Other Assets	1,317	747
Total Assets	$ 48,879	$ 27,551
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 788	$ 617
Accrued Expenses (Note 21)	2,673	603
Derivative Contracts (Note 20)	930	596
Deferred Tax Liability (Note 22)	2,063	-
Current Portion of Long-term Debt (Note 17)	4,125	-
Total Current Liabilities	10,579	1,816
Reclamation and Remediation Liabilities (Note 13)	1,666	1,249
Other liabilities	62	-
Long-term Debt (Note 17)	8,375	12,500
Total Long-term Liabilities	10,103	13,749
Commitments and Contingencies (Note 23)	-	-
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share; Authorized 300,000,000 shares; Issued and Outstanding 192,777,324 and 168,173,148 shares, respectively	19	17

Additional Paid-In Capital		63,074		54,016
Accumulated Deficit		(32,496)		(38,861)
Deferred Financing Costs (Note 17)		(2,611)		(3,438)
Deferred Compensation		(549)		(52)
Accumulated Other Comprehensive Income (Note 14)		760		304
Total Stockholders' Equity		28,197		11,986
Total Liabilities and Stockholders' Equity	$	48,879	$	27,551

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

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

	For The Year Ended July 31,		
	2008	2007	2006
Revenues			
Sales – Gold, net	$ 33,104	$ -	$ -
Costs and Expenses:			
Costs Applicable to Sales	10,690	-	-
Depreciation and Amortization	3,438	891	39
General and Administrative	5,586	2,893	2,225
Exploration	938	1,816	1,941
Total Costs and Expenses	20,652	5,600	4,205
Income (Loss) from Operations	12,452	(5,600)	(4,205)
Other Income (Expense):			
Interest Income	77	146	184
Interest Expense	(1,207)	(792)	-
Other Income (Expense)	(95)	-	(202)
Loss on change in fair value of derivative	(1,356)	(1,226)	(582)
Total Other Income (Expense)	(2,581)	(1,872)	(600)
Income (Loss) before Income Taxes	9,871	(7,472)	(4,805)
Income Tax Expense (Note 22)	(3,507)	-	-
Net Income (Loss)	$ 6,364	$ (7,472)	$ (4,805)
Income (Loss) Per Common Share			
Basic	$ 0.04	$ (0.05)	$ (0.04)
Diluted	$ 0.03	$ -	$ -
Basic Weighted Average Common Shares Outstanding	175,039,996	149,811,266	112,204,471
Diluted Weighted Average Common Shares Outstanding	195,469,129	-	-

CAPITAL GOLD CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2005	95,969,216	96	31,852	(26,583)	157	(253)	-	5,269
Change in par value to $0.0001	-	(86)	86	-	-	-	-	-
Deferred financing costs	1,000,000	-	270	-	-	(270)	-	-
Issuance of common stock upon warrant and option exercises, net	4,825,913	-	742		-		-	742
Issuance of common stock upon warrant and option exercises, net	8,600,000	1	2,373	-	-		-	2,374
Private placement, net	21,240,000	2	4,997	-	-		-	4,999
Options and warrants issued for services			414	-			(52)	362
Net loss for the year ended July 31, 2006	-	-	-	(4,805)	-	-	-	(4,805)
Unrealized loss on marketable securities	-	-	-		(60)		-	(60)
Equity adjustment from foreign currency translation				-	49		-	49
Total comprehensive loss	-	-	-	-	-	-	-	(4,816)
Balance - July 31, 2006	131,635,129	13	40,734	(31,388)	146	(523)	(52)	8,930

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

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

	Common Stock Shares	Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2006	131,635,129	13	40,734	(31,388)	146	(523)	(52)	8,930
Deferred financing costs	1,150,000	-	351	-	-	(351)	-	-
Deferred financing costs	-	-	3,314	-	-	(3,314)	-	-
Amortization of deferred finance costs	-	-	-	-	-	750	-	750
Options and warrants issued for services	-	-	216	-	-	-	-	216
Private placement, net	12,561,667	2	3,484					3,486
Common stock issued for services provided	622,443	-	276	-	-	-	-	276
Common stock issued upon the exercising of options and warrants	22,203,909	2	5,641					5,643
Net loss for the year ended July 31, 2007	-	-	-	(7,472)	-	-	-	(7,472)
Change in fair value on interest rate swaps	-	-	-	-	(47)	-	-	(47)
Equity adjustment from foreign currency translation	-	-	-	-	205	-	-	205
Total comprehensive loss	-	-	-	-	-	-	-	(7,314)
Balance at July 31, 2007	168,173,148	$ 17	$ 54,016	$ (38,860)	$ 304	$ (3,438)	$ (52)	$ 11,987

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

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

	Common Stock Shares	Common Stock Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2007	168,173,148	$ 17	$ 54,016	$ (38,860)	$ 304	$ (3,438)	$ (52)	$ 11,987
Amortization of deferred finance costs	-	-	-	-	-	930	-	930
Equity based compensation	-	-	433	-	-	-	194	627
Common stock issued upon the exercising of options and warrants	22,994,178	2	7,471					7,473
Issuance of restricted common stock	1,610,000	-	1,051				(691)	360
Deferred finance costs	-	-	103	-	-	(103)	-	-
Net income for the year ended July 31, 2008	-	-	-	6,364	-	-	-	6,364
Change in fair value on interest rate swaps	-	-	-	-	(141)	-	-	(141)
Unrealized loss on marketable securities	-	-	-	-	(25)	-	-	(25)
Equity adjustment from foreign currency translation	-	-	-	-	622	-	-	622
Total comprehensive income	-	-	-	-	-	-	-	6,820
Balance at July 31, 2008	192,777,236	$ 19	$ 63,074	$ (32,496)	$ 760	$ (2,611)	$ (549)	$ 28,197

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

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

	For The Year Ended July 31,		
	2008	2007	2006
Cash Flow From Operating Activities:			
Net Income (Loss)	$ 6,364	$ (7,472)	$ (4,805)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	3,388	891	39
Accretion of Reclamation and Remediation	124	31	-
Loss on sale of property and equipment	-	-	201
Loss on change in fair value of derivative	1,356	1,226	582
Equity Based Compensation	987	492	362
Changes in Operating Assets and Liabilities:			
Increase in Accounts Receivable	(1,477)	-	-
Increase in Prepaid Expenses	(146)	(32)	(21)
Increase in Inventory	(8,913)	(2,458)	-
Increase (Decrease) in Other Current Assets	1,185	2,975	(5,243)
Decrease (Increase) in Other Deposits	870	(629)	(170)
Decrease (Increase) in Other Assets	-	(50)	1
Increase in Mining Reclamation Bond	(46)	-	-
Increase in Deferred Tax Asset	(573)	-	-
Increase in Accounts Payable	171	358	167
Decrease in Derivative Liability	(1,166)	(460)	-
Increase in Reclamation and Remediation	-	1,218	-
Increase in Other Liability	62		-
Increase in Deferred Tax Liability	2,063		-
Increase in Accrued Expenses	2,069	247	166
Net Cash Provided By (Used in) Operating Activities	6,318	(3,663)	(8,721)
Cash Flow From Investing Activities:			
Decrease (Increase) in Other Investments	28	(4)	-
Purchase of Mining, Milling and Other Property and Equipment	(5,417)	(17,851)	(811)
Purchase of Intangibles	(90)	(570)	-
Proceeds on Sale of Mining, Milling and Other Property and Equipment	-	-	192
Net Cash Used in Investing Activities	(5,479)	(18,425)	(619)

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

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

	For The Year Ended July 31,		
	2008	2007	2006
Cash Flow From Financing Activities:			
Advances to Affiliate	$ 7	$ (5)	$ (10)
Proceeds from Borrowing on Credit Facility	-	12,500	-
Proceeds From Issuance of Common Stock	7,474	9,129	8,115
Deferred Finance Costs	(175)	(257)	(351)
Net Cash Provided By Financing Activities	7,306	21,367	7,754
Effect of Exchange Rate Changes	622	205	46
Increase (Decrease) In Cash and Cash Equivalents	8,767	(516)	(1,540)
Cash and Cash Equivalents - Beginning	2,225	2,741	4,281
Cash and Cash Equivalents – Ending	$ 10,992	$ 2,225	$ 2,741
Supplemental Cash Flow Information:			
Cash Paid For Interest	$ 1,235	$ 879	$ -
Cash Paid For Income Taxes	$ 1,373	$ 23	$ 15
Non-Cash Financing Activities:			
Issuance of common stock and warrants as payment of financing costs	$ 103	$ 3,665	$ 270
Change in Fair Value of Derivative Instrument	$ 141	$ 47	$ -
Change in Fair Value of Asset Retirement Obligation	$ 293	$ -	$ -

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

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CAPITAL GOLD CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2008
(in thousands, except for per share and ounce amounts)

NOTE 1 - Basis of Presentation

Capital Gold Corporation ("Capital Gold", "the Company", "we" or "us") was incorporated in February 1982 in the State of Nevada. During March 2003 the Company's stockholders approved an amendment to the Articles of Incorporation to change its name from Leadville Mining and Milling Corp. to Capital Gold Corporation. In November 2005, the Company reincorporated in Delaware. The Company owns rights to property located in the State of Sonora, Mexico and the California Mining District, Lake County, Colorado. The Company is engaged in the exploration, development and production for gold and other minerals from its properties in Mexico. All of the Company's mining activities are being performed in Mexico.

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

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

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

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

During the fiscal year ended July 31, 2007, The Company exited the development stage since principal operations have commenced.

NOTE 2 - Summary of Significant Accounting Policies

Principals of Consolidation

The consolidated financial statements include the accounts of Capital Gold Corporation and its wholly owned and majority owned subsidiaries, Leadville Mining and Milling Holding Corporation, Minera Santa Rita, S.A de R.L. de C.V.("MSR") and Oro de Altar S. de R. L. de C.V. ("Oro") as well as the accounts within Caborca Industrial S.A. de C.V. ("Caborca Industrial"), a Mexican corporation 100% owned by two of the Company's officers and directors for mining support services. These services include, but are not limited to, the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at cost. This entity is considered a variable interest entity under accounting rules provided under FIN 46, "Consolidation of Variable Interest Entities". All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable represents amounts due but not yet received from customers upon sales of precious metals. The carrying amount of the Company's accounts receivable balances approximate fair value.

Marketable Securities

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

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

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

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

Ore on Leach Pads

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

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

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

In-process Inventory

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

Precious Metals Inventory

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

Materials and Supplies

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

Property, Plant and Mine Development

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

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

Impairment of Long-Lived Assets

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

Reclamation and Remediation Costs ("Asset Retirement Obligations")

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at its mine site in accordance with Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143")

Deferred Financing Costs

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

Intangible Assets

Purchased intangible assets consisting of rights of way, easements and net profit interests are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2008.

Fair Value of Financial Instruments

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

Long-term Debt

The carrying value of the Company's long-term debt approximates fair value.

Revenue Recognition

Revenue is recognized from the sale of gold dore when persuasive evidence of an arrangement exists, the price is determinable, the product has been delivered to the refinery, the title and risk of loss has been transferred to the refiner and collection of the sales price is reasonably assured from the customer. Sales are calculated based upon assay of the dore's precious metal content and its weight. The Company receives 95% of the precious metal content contained within the dore from the refinery based upon the preliminary assay of the Company. The Company forwards an irrevocable transfer letter to the refinery to authorize the transfer of the precious metal content to the customer. The sale is recorded by the Company upon the refinery pledging the precious metal content to the customer. Revenues from by-product sales, which consists of silver, will be credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $707, $0 and $0 for the fiscal years ended July 31, 2008, 2007 and 2006, respectively.

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

Income Taxes

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

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

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that the Company will not be liable for any excess flat tax for calendar year 2008 and, accordingly, has recorded a Mexican income tax provision as of July 31, 2008.

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

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

Equity Based Compensation

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

Such options and warrants may be exercisable at varying exercise prices currently ranging from $0.24 to $0.85 per share of common stock with certain of these grants becoming exercisable immediately upon grant. Certain grants have vested or are vesting over a period of five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

Effective February 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R "Accounting for Stock Based Compensation" ("SFAS 123R"). Under SFAS 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 SFAS 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 SFAS 123R.

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

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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 fiscal years ended July 31, 2008, 2007 and 2006; were $0.62, $0.33 and $0.38, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Year ended July 31,		
	2008	2007	2006
Expected volatility	47.60 – 60.88%	73%	95 – 165%
Risk-free interest rate	4.61%	5.75%	5.95%
Expected dividend yield	-	-	-
Expected life	5.5 years	2.4 years	1-2 years

Stock option and warrant activity for employees during the fiscal years ended July 31, 2008, 2007 and 2006 are as follows (all tables in thousands, except for option, price and term data):

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2005	4,711,363	$ .09	0.30	$ 1,278
Options granted	4,611,363	.13	-	-
Options exercised	(590,909)	.05	-	-
Options expired	(3,161,363)	.05	-	-
Outstanding at July 31, 2006	5,570,454	$ .16	-	$ 702
Options granted	1,050,000	.36	-	-
Options exercised	(3,570,909)	.08	-	-
Options expired	(549,545)	.22	-	-
Warrants and options outstanding at July 31, 2007	2,500,000	$ .34	1.20	$ 255
Options granted*	2,500,000	.63	-	-
Options exercised	(1,450,000)	.32	-	-
Options expired	-	-	-	-
Warrants and options outstanding at July 31, 2008	3,550,000	$ .55	4.00	$ 334
Warrants and options exercisable at July 31, 2008	1,800,000	$ .47	2.83	$ 308

* Issuances under 2006 Equity Incentive Plan.

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Unvested stock option and warrant balances for employees at July 31, 2008, 2007 and 2006 are as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2005	-	$ -	-	-
Options granted	150,000	.32	2.00	$ 17
Outstanding at July 31, 2006	150,000	$ .32	1.67	$ 17
Options granted	-	-	-	-
Outstanding at July 31, 2007	150,000	$ .32	0.67	$ 18
Options granted	2,500,000	.63	-	-
Options vested	(900,000)	.58	-	-
Unvested Options outstanding at July 31, 2008	1,750,000	$ .63	4.49	$ 8

Stock option and warrant activity for non-employees during the years ended July 31, 2008, 2007 and 2006 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2005	31,902,004	$ .30	1.13	$ 3,430
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	$ 1,940
Options granted	16,982,542	.33		
Options exercised	(18,633,000)	.29	-	-
Options expired	(1,375,000)	.31	-	-
Warrants and options outstanding at July 31, 2007	22,535,542	$ .33	1.48	$ 2,578
Options granted*	1,715,000	$ .66	-	-
Options exercised	(21,555,542)	.33	-	-
Options expired	(680,000)	.30	-	-
Warrants and options outstanding at July 31, 2008	2,015,000	$ .62	3.54	$ 54
Warrants and options exercisable at July 31, 2008	1,560,000	$ .61	2.71	$ 48

* 1,115,000 issued under 2006 Equity Incentive Plan.

Unvested stock option and warrant balances for non-employees at July 31, 2008, 2007 and 2006 are as follows:

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2006	-	$ -	-	$ -
Options granted	-	-	-	-
Options vested	-	-	-	-
Outstanding at July 31, 2007	-	$ -	-	$ -
Options granted	650,000	.63	-	-
Options vested	(195,000)	.63	-	-
Unvested options outstanding at July 31, 2008	455,000	$ .63	4.49	$ 3

The impact on the Company's results of operations of recording equity based compensation for the fiscal years ended July 31, 2008, 2007 and 2006, for employees and non-employees was approximately $987, $492 and $362 and reduced earnings per share by $0.01, $0.00 and $0.00 per basic and diluted share, respectively. The Company has not recognized any tax benefit or expense for the fiscal years ended July 31, 2008, 2007 and 2006, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 22).

As of July 31, 2008, 2007 and 2006, there was approximately $686, $53 and $53, respectively, of unrecognized equity based compensation cost related to options granted to executives and employees which have not yet vested.

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	$ (4,805)
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)
Pro forma net loss	$ (5,578)
Pro forma net loss per common share (basic and diluted)	$ (.05)
Weighted average of common share (basic and diluted)	112,204,471
Net loss per common share basic and diluted	$ (.04)

Reclassifications

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

Net Loss Per Common Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants, which amounted to 25,035,542 and 31,131,454 shares, respectively, are excluded from the calculation of diluted net loss per share for the fiscal years ended July 31, 2007 and 2006 since their effect is antidilutive.

Concentrations of Credit Risk

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

Accounting for Derivatives and Hedging Activities

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

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

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

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

Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company elected not to adopt the fair value option for any eligible instruments.

On December 4, 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51." Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net

income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company believes adoption of this standard will not have an impact on the financial condition or the results of the Company's operations.

On April 21, 2008, the FASB posted a revised FASB Statement No. 133 Implementation guidance for Issues I1, Interaction of the Disclosure Requirements of Statement 133 and Statement 47, and K4, Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness. The revisions relate to the issuance of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The Company believes adoption of this standard will not have a material impact on the financial condition or the results of the Company's operations.

The FASB has issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. Statement 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. The hierarchy under Statement 162 is as follows:

* FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, AICPA Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB, and Rules and interpretive releases of the SEC for SEC registrants.

* FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position.

* AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the EITF, and Appendix D EITF topics.

Statement 162 is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Since Statement 162 is only effective for nongovernmental entities, the GAAP hierarchy will remain in AICPA Statement on Auditing Standards (SAS) No. 69, The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report, for state and local governmental entities and federal governmental entities. The Company believes the adoption of this standard will not have a material impact on the financial condition or the results of the Company's operations.

The FASB issued FASB Statement No. 163, Accounting for Financial Guarantee Insurance Contracts. This new standard clarifies how FASB Statement No. 60, Accounting and Reporting by Insurance Enterprises, applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts.

Statement 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities, which are effective the first period (including interim periods) beginning after May 23, 2008. Except for the required disclosures, earlier application is not permitted. The Company believes the adoption of this standard will not have an impact on the financial condition or the results of the Company's operations.

NOTE 3 - Marketable Securities

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

	(in thousands)	
	July 31, 2008	July 31, 2007
Marketable equity securities, at cost	$ 50	$ 50
Marketable equity securities, at fair value (See Notes 12 & 14)	$ 65	$ 90

NOTE 4 – Material and Supplies Inventories

	(in thousands)	
	July 31, 2008	July 31, 2007
Materials, supplies and other	$ 937	$ 174
Total	$ 937	$ 174

NOTE 5 - Ore on Leach Pads and Inventories (“In-Process Inventory”)

	(in thousands)	
	July 31, 2008	July 31, 2007
Ore on leach pads	$ 12,176	$ 2,996
Total	$ 12,176	$ 2,996

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

NOTE 6 – Deposits

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

	(in thousands)	
	July 31, 2008	July 31, 2007
Advance payment on Mining Contract to Sinergia (Note 18)	$ -	$ 683
Equipment deposit	9	193
Other	-	3
Total Deposits	$ 9	$ 879

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NOTE 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands)	
	July 31, 2008	July 31, 2007
Value added tax to be refunded	$ 425	$ 1,475
Asset held for resale	-	166
Other	65	34
Total Other Current Assets	$ 490	$ 1,675

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands)	
	July 31, 2008	July 31, 2007
Process equipment and facilities	$ 21,693	$ 17,503
Mining equipment	974	863
Mineral properties	141	141
Construction in progress	1,277	-
Computer and office equipment	316	212
Improvements	16	16
Furniture	38	23
Total	24,455	18,758
Less: accumulated depreciation	(3,537)	(758)
Property and equipment, net	$ 20,918	$ 18,000

Depreciation expense for the fiscal years ended July 31, 2008, 2007 and 2006 was approximately $2,779, $720 and $34, respectively.

NOTE 9 - Intangible Assets

Intangible assets consist of the following:

	(in thousands)	
	July 31, 2008	July31, 2007
Repurchase of Net Profits Interest	$ 500	$ 500
Water Rights	134	-
Mobilization Payment to Mineral Contractor	70	70
Investment in Right of Way	18	18
Total	722	588
Accumulated Amortization	(541)	(11)
Intangible assets, net	$ 181	$ 577

Purchased intangible assets consisting of rights of way, water rights, easements and net profit interests are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the UOP method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2008.

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, the Company's wholly owned Mexican subsidiary. FG 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, and was structured as part of the project costs financed by the loan agreement with Standard Bank, Plc. (See Note 17). Mr. Cibrian retained 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. On March 23, 2007, The Company reacquired the remaining 1% net profits interest (see Note 18).

The Right of Way and the Mobilization Payment were recorded at cost and are being amortized using the units of production method. Amortization expense for the year ended July 31, 2008, 2007 and 2006 was approximately $530, $7 and $4, respectively. The Repurchase of Net Profits Interest from FG was fully amortized as of July 31, 2008.

NOTE 10 - 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 11 - Mining Concessions

Mining concessions consists of the following:

	(in thousands) July 31, 2008	July 31, 2007
El Chanate	$ 45	$ 45
El Charro	25	25
Total	70	70
Less: accumulated amortization	(11)	(3)
Total	$ 59	$ 67

The El Chanate concessions are carried at historical cost and are being amortized using the units of production method. They were acquired in connection with the purchase of the stock of Minera Chanate (see Note 1). Amortization expense for the years ended July 31, 2008, 2007 and 2006 was approximately $8, $3 and $0, respectively.

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

NOTE 12 - 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 was an officer and director of that corporation. On March 10, 2008, the Company’s president and chairman of the board of directors resigned as both an officer and director of this corporation. These loans are non-interest bearing and due on demand (see Note 3 & 14).

NOTE 13 - Reclamations and Remediation Liabilities (“Asset Retirement Obligations”)

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and abandonment costs as of July 31, 2008. This review resulted in an increase in the Asset Retirement Obligation by approximately $293. As of July 31, 2008 and 2007, approximately $1,666 and $1,249, respectively, was accrued for reclamation obligations relating to mineral properties in accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations.”

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the years ended July 31, 2008 and 2007:

		(in thousands)
Balance as of July 31, 2006	$	-
Additions, changes in estimates and other		1,218
Liabilities settled		-
Accretion expense		31
Balance as of July 31, 2007	$	1,249
Additions, changes in estimates and other		293
Liabilities settled		-
Accretion expense		124
Balance as of July 31, 2008	$	1,666

NOTE 14 – Accumulated Other Comprehensive Income

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

		Foreign currency items		Unrealized gain (loss) on securities		Change in fair value on interest rate swaps		Accumulated other comprehensive income
Balance as of July 31, 2005	$	57	$	100	$	-	$	157
Income (loss)		49		(60)		-		(11)
Balance as of July 31, 2006	$	106	$	40	$	-	$	146
Income (loss)		(47)		-		205		158
Balance as of July 31, 2007		59		40		205		304
Income (loss)		622		(25)		(141)		456
Balance as of July 31, 2008	$	681	$	15	$	64	$	760

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the years ended July 31, 2008, 2007 and 2006.

NOTE 15 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately $6, $9 and $10 in expense reimbursements including office rent from this entity for the years ended July 31, 2008, 2007 and 2006, respectively (see Notes 3 and 12).

The Company utilizes Caborca Industrial, a Mexican Corporation that is 100% owned by Gifford A. Dieterle, the Company’s Chief Executive Officer, and Jeffrey W. Pritchard, the Company’s Executive Vice President, for mining support services. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately $3,775, $702 and $122 for the year ended July 31, 2008, 2007 and 2006, respectively.

During the years ended July 31, 2008, 2007 and 2006, the Company paid Jack Everett, its former V.P. Exploration and Director, consulting fees of $100, $0 and $69, respectively. In addition, this individual earned wages of $120 and $50 during the years ended July 31, 2007 and 2006, respectively. During the years ended July 31, 2007 and 2006, the Company paid its V.P. Exploration and Director, Roger Newell, consulting fees of $0 and $89, respectively. In addition, Mr. Newell earned wages of $120 during the year ended July 31, 2007. Also, during the years ended July 31, 2008, 2007 and 2006, the Company paid Robert Roningen, a director, legal and consulting fees of $35, $24 and $8, respectively.

In January 2006, the Company extended the following stock options through January 3, 2007, all of which are exercisable at $0.05 per share: Gifford A. Dieterle, Chief Executive Officer and Director – 1,250,000 shares; Robert Roningen, Director – 500,000 shares; Jeffrey W. Pritchard, V.P. Investor Relations and Director – 327,727 shares; Roger Newell, V.P. Development and Director – 500,000 shares; and Scott Hazlitt, 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.

On February 7, 2007, Robert Roningen resigned as the Company's Secretary and, on February 9, 2007, John Brownlie, the Company's Vice President of Operations, was appointed Chief Operating Officer and Jeffrey W. Pritchard, the Company's Vice President of Investor Relations, was appointed Secretary.

The Company's V.P. Development and Director, Roger Newell, 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 year ended July 31, 2006.

On December 20, 2007, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers, directors and employees were granted 1,095,000 restricted shares under our 2006 Equity Incentive Plan. The restricted shares granted vest equally over three years from the date of grant. In addition, the Company's executive officers were granted 3,150,000 stock options under our 2006 Equity Incentive Plan. The stock options have a term of seven years and vest as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is $0.63 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon the happening of a change of control, all unvested stock options and unvested restricted stock grants immediately vest.

On July 17, 2008, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers and directors were granted 515,000 shares under its 2006 Equity Incentive Plan. The restricted shares granted vested immediately.

NOTE 16 - Stockholders' Equity

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

The Company issued 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 and $3,314, 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 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 18). The balance of deferred financing costs, net of amortization, as of July 31, 2008 and 2007, as a reduction of stockholders' equity, was approximately $2,611 and $3,438. Amortization expense for the years ended July 31, 2008, 2007 and 2006, was approximately $931, $750 and $0, respectively.

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 at $0.30 per unit for proceeds of approximately $3,486, net of commissions of approximately $283. Each warrant issued in the January 2007 placements is exercisable for ¼ of a share of common stock, at an exercise price equal to $0.40 per share. Thus, a holder must exercise four warrants to purchase one share of common stock. 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 using the Black-Scholes option pricing method.

The Company also received proceeds of approximately $7,473, $5,643 and $742 during the years ended July 31, 2008, 2007 and 2006, from the exercising of an aggregate of 22,994,178, 22,203,909 and 4,825,913 of warrants and options, respectively, issued to investors in past private placements, to officers and directors as well as to outside parties for services rendered.

On March 22, 2007, the Company issued 500,000 shares of common stock to John Brownlie, the Company's Chief Operating Officer under the Company's 2006 Equity Incentive Plan. The fair value of the shares issued in March 2007 amounted to $225 or $0.45 per share. The shares, which were granted to Mr. Brownlie as compensation for services already provided to the Company, vested immediately. The compensation expense was fully recognized on the date of the grant.

In March 2007, the Company issued 65,625 shares of common stock to an independent contractor for services provided related to the Company's El Chanate project. The fair value of the services provided amounted to $26 or $0.40 per share. In April 2007, this independent contractor was engaged as the general manager of the Company's El Chanate project for a six month term with an option for an additional six month term, if mutually agreed upon by both parties. Pursuant to the agreement, the Company issued 113,636 shares of common stock with a fair value of $50 or $0.44 per share at the fair market value of the Company's common stock on the date of the agreement. The issuance of these shares vest over the six-month term. The independent contractor and the Company mutually agreed to terminate the contractor after three months as construction was complete. The Company issued 56,818 shares of the Company's common stock on the vested portion of the 113,636 shares or 50%.

On December 20, 2007, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers, directors and employees were granted 1,095,000 restricted shares under our 2006 Equity Incentive Plan (the "Plan"). The restricted shares granted vest equally over three years from the date of grant. The fair value of the Company's stock was $0.63 on the date of grant resulting in the Company recording approximately $690 in deferred compensation cost. For the year ended July 31, 2008, the Company has recorded approximately $194 in equity compensation expense upon the vesting of a portion of restricted shares.

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On July 17, 2008, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers and directors were granted 515,000 shares under our 2006 Equity Incentive Plan. The restricted shares granted vested immediately. The fair value of the Company's stock was $0.70 on the date of grant resulting in the Company recording approximately $361 in equity compensation expense.

Recapitalization

In February 2007, the Company's Certificate of Incorporation was amended to increase the Company's authorized shares of capital stock from 200,000,000 to 250,000,000 shares. In January 2008, the Company amended its Certificate of Incorporation to increase the Company's authorized shares of capital stock from 250,000,000 to 300,000,000 shares.

Warrants and Options

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

On 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 its common stock on that date) for a period of two years. The Company utilized the Black-Scholes Method to fair value the 300,000 options received by the directors and recorded approximately $40 as equity based compensation expense. The grant date fair value of each stock option was $0.13.

On December 13, 2006, the Company issued two year options to purchase the Company's 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. The Company utilized the Black-Scholes Method to fair value the 450,000 options received by these individuals and recorded approximately $61 as stock based compensation expense. The grant date fair value of each stock option was $0.14.

On March 22, 2007, the Company issued two year options to purchase the Company's common stock at an exercise price of $0.45 per share to the Company's then SEC Counsel. These options are for the purchase of 100,000 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately $15 as equity based compensation expense. The grant date fair value of each stock option was $0.15.

On June 13, 2007, the Company issued two year options to purchase the Company's common stock at an exercise price of $0.384 per share to the Company's CFO. These options are for the purchase of 500,000 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately $65 as equity based compensation expense. The grant date fair value of each stock option was $0.13.

On August 13, 2007, the Company issued two year options to purchase the Company's common stock at an exercise price ranging from $0.43 to $0.50 per share to outside parties for services provided. These options are for the purchase of 465,000 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately $58 as equity based compensation expense. The average grant date fair value of each stock option was $0.12 with an exercise price of no less than fair

market value of the underlying stock at the date of grant.

On December 20 2007, at the recommendation of the Compensation Committee of the Board of Directors, the Company's executive officers , directors and employees, Gifford Dieterle, John Brownlie, Christopher Chipman, Jeffrey Pritchard, Scott Hazlitt, Ian Shaw, John Postle, Mark Nesbitt, Roger Newell, Robert Roningen, and employees were granted 500,000, 500,000, 500,000, 500,000, 350,000, 150,000, 150,000, 150,000, 100,000, 100,000 and 150,000 stock options, respectively, aggregating 3,150,000 stock options under our 2006 Equity Incentive Plan . The stock options have a term of seven years and vest as follows: 20% vested upon issuance and the balance vest 20% annually thereafter. The exercise price of the stock options is $0.63 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan, unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon the happening of a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 3,150,000 options received by these individuals totaling $1,060. For the fiscal year ended July 31, 2008, the Company recorded approximately $375 in equity compensation expense on the vested portion of these stock options. The grant date fair value of each stock option was $0.34.

On July 17, 2008, the Company closed in escrow pending execution of Mexican collateral documents and certain other ministerial matters an Amended And Restated Credit Agreement (the "Credit Agreement") involving our wholly-owned Mexican subsidiaries Minera Santa Rita S. de R.L. de C.V. ("MSR") and Oro de Altar S. de R.L. de C.V. ("Oro"), as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender., Pursuant to the Credit Agreement, the Company agreed to issue to Standard Bank a two year warrant to purchase an aggregate of 600,000 shares of our common stock at an exercise price of $0.852 per share. The warrants were valued at approximately $103 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 as of July 31, 2008 (See Note 17). The grant date fair value of each stock option was $0.17.

2006 Equity Incentive Plan

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

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

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

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.

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 Securities Exchange Act of 1934, as amended or any applicable stock exchange listing requirements. The Board may amend the Plan in any respect it deems necessary or advisable to provide eligible Employees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to Incentive Stock Options and/or to bring the Plan and/or Incentive Stock Options granted under it into compliance therewith. Rights under any Award granted before amendment of the Plan cannot be impaired by any amendment of the Plan unless the Participant consents in writing. The Board is empowered to amend the terms of any one or more Awards; provided, however, that the rights under any Award shall not be impaired by any such amendment unless the applicable Participant consents in writing and further provided that the Board cannot amend the exercise price of an option, the Fair Market Value of an Award or extend the term of an option or Award without obtaining the approval of the stockholders if required by the rules of the TSX or any stock exchange upon which the common stock is listed.

Information regarding the options approved by the Compensation Committee under the Equity Incentive Plan for the fiscal years ended July 31, 2008 and 2007 is summarized below:

	2007			2008		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price
Outstanding beginning at year	-	$ -	$ -	1,050,000	$ 0.36-0.45	$ 0.38
Granted	1,050,000	0.36-0.45	0.38	3,615,000	0.38-0.63	$ 0.61
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding end of year	1,050,000	$ 0.36-0.45	$ 0.38	4,665,000	$ 0.36-0.63	$ 0.56
Exercisable	1,050,000	$ 0.36-0.45	$ 0.38	3,360,000	$ 0.36-0.63	$ 0.54
Weighted average remaining contractual life (years)	1-2 years	-	-	5-6 years	-	-
Available for future grants	8,450,000	-	-	3,225,000	-	-

Restricted stock awards granted by the Compensation Committee under the Equity Incentive Plan for the fiscal years ended July 31, 2008 and 2007, were 500,000 and 1,610,000 shares, respectively. There was no activity within the equity incentive plan for the fiscal year ended July 31, 2006.

NOTE 17 - Debt

Long term debt consists of the following:

	(in thousands)	
	July 31, 2008	July 31, 2007
Total long-term debt	$ 12,500	$ 12,500
Less current portion	4,125	-
Long-term debt	$ 8,375	$ 12,500

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$12,500 (the "Loan") for the purpose of constructing, developing and operating the Company's 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 having been made on September 30, 2008. The Loan bears interest at LIBOR plus 4.00%, with LIBOR interest periods of 1, 2, 3 or 6 months and with interest payable at the end of the applicable interest period. As of July 31, 2008 and 2007, the accrued interest on this facility was approximately $72 and $100, respectively.

Approximate future principal payments under this loan are as follows (in thousands):

Fiscal Years Ending July 31,	
2009	$ 4,125
2010	3,125
2011	3,500
2012	1,750
	$ 12,500

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 is required to meet and maintain certain financial covenants, including (i) a debt service coverage ratio of not less than 1.2 to 1.0, (ii) a projected debt service coverage ratio of not less than 1.2 to 1.0, (iii) a loan life coverage ratio of at least 1.6 to 1.0, (iv) a project life coverage ratio of at least 2.0 to 1.0 and (v) a minimum reserve tail. The Company also is required to maintain a certain minimum level of unrestricted cash, and upon meeting certain Mine start-up production and performance criteria, MSR and Oro are required to maintain a specified amount of cash as a reserve for debt repayment. As of July 31, 2008, the Company was in compliance with these financial covenants.

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 its common stock at an exercise price of $0.317 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. Previously, pursuant to the mandate and commitment letter for the facility, the Company issued to Standard Bank 1,000,000 shares of its restricted common stock and a warrant for the purchase of 1,000,000 shares of its common stock at an exercise price of $0.32 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. The Company recorded the issuance of the 1,000,000 shares of common stock as deferred financing costs of approximately $270 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 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 to protect it against future fluctuations in the price of gold and interest rate swap agreements in October 2006 in accordance with the terms of the Credit Facility both with Standard Bank (See Note 20 for more details on these transactions).

On July 17, 2008, the Company closed in escrow pending execution of Mexican collateral documents and certain other ministerial matters an Amended And Restated Credit Agreement (the "Credit Agreement") involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006 (the "Original Agreement"). Under the Original Agreement, MSR and Oro could borrow, and did borrow, money in an aggregate principal amount of up to US$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Original Agreement.

The Credit Agreement establishes a new senior secured revolving credit facility that permits the Borrowers to borrow up to $5,000 during the one year period after the closing of the Credit Agreement. The Borrowers may request a borrowing of the Revolving Commitment from time to time, provided that the Borrowers are not entitled to request a borrowing more than once in any calendar month (each borrowing a "Revolving Loan"). Repayment of the Revolving Loans will be secured and guaranteed in the same manner as the Term Loan. Term Loan principal shall be repaid quarterly commencing on September 30, 2008 and consisting of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. Principal under the Term Loan and the Revolving Loans shall bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. An Interest Period can be one, two, three or six months, at the option of the Borrowers. The Applicable Margin for the Term Loan and the Revolving Loans is 2.5% per annum and 2.0% per annum, respectively. The Borrowers are required to pay a commitment fee in respect of the Revolving Commitment at the rate of 1.5% per annum on the average daily unused portion of the Revolving Commitment. Pursuant to the terms of the Original Credit Agreement, Standard Bank exercised significant control over the operating accounts of MSR located in Mexico and in the United States. Standard Bank's control over the accounts has been lifted significantly under the terms of the Credit Agreement, giving the Borrowers authority to exercise primary day-to-day control over the accounts. However, the accounts remain subject to an account pledge agreement between MSR and the Lender.

In connection with the refinance proceedings, the Borrowers, as a condition precedent to closing, obtained a waiver letter from the Lender of any default or event of default as a result of not being in compliance with regulations of Mexican federal law with regard to certain filing and environmental bonding issues in connection with the operation of mining the El Chanate concessions as well as certain insurance requirements. The Borrowers have not yet complied with these regulations due to the absence of professionals in the area qualified to conduct studies to facilitate compliance. The Borrowers have agreed to make a commercially reasonable effort to come into compliance with these requirements. See also Note 25 “Subsequent Events”.

NOTE 18 – Mining, Engineering and Supply Contracts

In early December 2005, the Company’s wholly-owned Mexican subsidiary, MSR, which holds the rights to develop and mine El Chanate Project, entered into a Mining Contract with a Mexican mining contractor, Sinergia Obras Civiles y Mineras, S.A. de C.V,("Sinergia"). 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 was extended to November 1, 2006. Provided that this Notice was 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 would 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 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 placing the leach pad overliner material both Sinergia and MSR mutually agreed to delay mining until the end of March 2007. Mining of the El Chanate Project initiated on March 25, 2007.

Pursuant to the Mining Contract, Sinergia, using its own equipment, generally is performing all of the mining work (other than crushing) at the El Chanate Project for the life of the mine. MSR delivered to the Contractor a mobilization payment of $70 and the advance payment of $520. 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 the Company’s former joint venture partner. As of July 31, 2008, the entire advance payment has been recovered by MSR.

On March 23, 2007, the Company reacquired the remaining 1% net profits interest in its Mexican affiliate, MSR from one of the successors to FG (“FG’s Successor”). When the joint venture was terminated in March 2004, FG received, among other things, a participation certificate entitling it to receive 5% of the annual dividends of MSR, when declared. The participation certificate also gave FG the right to participate, but not to vote, in the meetings of MSR’s Board of Managers, Technical Committee and Partners. In August 2006, the Company repurchased the participation certificate from FG’s Successor for $500 with FG’s Successor retaining a 1% net profits interest in MSR, payable only after a total $20 million in net profits has been generated from operations at El Chanate. The Company reacquired the remaining 1% net profits interest in consideration of its advancing $319 to Sinergia under the Mining Contract. FG’s Successor is a principal of Sinergia. As of July 31, 2008, the entire advance has been recovered.

NOTE 19 - 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.

On June 6, 2007, Jack V. Everett resigned as Vice President of Exploration and a Director of the Company and entered into a consulting agreement with the Company to provide mining and mineral exploration consultation services.

On September 10, 2007, Roger A. Newell resigned as Vice President of Development. He will continue to serve as a member of the Company's Board of Directors.

Mr. Dieterle is entitled to a base annual salary of at least $180, Mr. Hazlitt is entitled to a base annual salary of at least $125 and each of the other executives is entitled to a base annual salary of at least $120. 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). These options have all been exercised. As discussed below, these agreements have been amended to provide for salary increases.

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

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

In conjunction with the employment agreements, the Company's board of directors deeming it essential to the best interests of its stockholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of the company and its stockholders, determined to reinforce and encourage the continued attention and dedication of members of the Company's management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the company, it entered into identical agreements regarding change in control with the executives. Each of the agreements regarding change in control continues through December 31, 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 three times his bonus award from the prior year, as well as outplacement benefits. In addition, the exercise price of all Company options would decrease to $0.01 per share. 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.

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

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

A "Potential Change of Control" occurs when (1) the Company enters into an agreement, the consummation of which would result in a Change in Control; (2) a person publicly announces an intention to take or to consider taking actions, the consummation of which would result in a Change in Control, which announcement has not been rescinded; (3) a

person becomes the beneficial owner of securities representing 20% or more of outstanding shares of common stock of the Company or the combined voting power of the Company’s then outstanding securities; or (4) the Board adopts a resolution that a Potential Change of Control exists, which resolution has not been modified.

On September 14, 2007, the Company entered into a Second Amended Engagement Agreement (the “Agreement”) with Christopher Chipman, the Company’s Chief Financial Officer, effective May 1, 2007. The Agreement supersedes and replaces Mr. Chipman’s prior agreement that expired on August 31, 2007. He receives an annual fee of $175. Mr. Chipman can terminate the Agreement on 60 days prior notice. The Company can terminate the Agreement without cause on 30 days prior notice and for cause (as defined in the Agreement). The Agreement also terminates upon Mr. Chipman’s disability (as defined in the Agreement) or death. In the event that the Company terminates the Agreement without cause, Mr. Chipman will be entitled to a cash termination payment equal to his Annual Fee in effect upon the date of termination, payable in equal monthly installments beginning in the month following his termination. In the event the Agreement is terminated by Mr. Chipman at his election or due to his death or disability, Mr. Chipman will be entitled to the fees otherwise due and payable to him through the last day of the month in which such termination occurs. In conjunction with Agreement, the Company entered into a change of control agreement similar to the agreements entered into with the Company’s other executive officers. In connections with the original engagement agreement with Mr. Chipman in March 2006, Mr. Chipman received a two year option to purchase an aggregate of 50,000 shares of Company Common Stock at an exercise price of $.34 per share. This option has been exercised in full.

On May 12, 2006, the Company entered into an employment agreement with John Brownlie, pursuant to which Mr. Brownlie originally served as Vice President Operations. Mr. Brownlie became our Chief Operating Officer in February 2007. Mr. Brownlie serves as Vice President Operations. Mr. Brownlie receives a base annual salary of $150 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 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.

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

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

See Note 25 – Subsequent Events for changes to executive agreements subsequent to the fiscal year ended July 31, 2008.

NOTE 20 - Sales Contracts, Commodity and Financial Instruments

In March 2006, in conjunction with the Company's credit facility, the Company entered into two identically structured derivative contracts with Standard Bank (See Note 15). Each derivative consisted of a series of forward sales of gold and a purchase gold cap. The Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of $500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to purchase a gold cap, enabling the company to buy gold 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. This combination of forward sales with purchased call options synthesizes a put position, which, in turn, serves to put a floor on the Company's sales price. Critically, the volume of these derivative positions represents about 86 percent of current sales, such that these derivative positions serve only to mitigate the Company's gold price risk, rather than eliminate or reverse the natural exposure of the Company.

Under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), these contracts must be carried on the balance sheet at their fair value. The Company records these changes in fair value and any cash settlements within Other Income or Expense. The contracts were not designated as hedging derivatives, and therefore special hedge accounting is not applied.

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

		(in thousands)
Asset balance as of July 31, 2005	$	-
Premium paid		(800)
Loss on change in fair value of derivative		582
Asset balance as of July 31, 2006	$	(218)
Loss on change in fair value of derivative		1,226
Net cash settlements		(460)
Liability balance as of July 31, 2007	$	548
Loss on change in fair value of derivative		1,356
Net cash settlements		(1,166)
Liability balance as of July 31, 2008	$	738

Rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, the Company has opted for a net cash settlement between the call option purchase price of $535 and the forward sale price of $500, or $35.00 per oz. Since inception, the Company has paid Standard Bank an aggregate of approximately $1,641 on the settlement of 46,883 ounces with corresponding reductions in the Company's derivative liability ($1,166 or 25,329 ounces of gold for the fiscal year ended July 31, 2008). These expenses were incurred concurrently with sales revenues that reflected actual sales of physical gold at market prices well above the option strike price of $535 per ounce. The remaining ounces to settle with regard to this agreement amounted to 75,044 as of July 31, 2008.

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

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

The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income ("OCI") and later reclassified to the interest expense component of earnings coincidently with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness. The amount expected to be reclassified from other comprehensive income to earnings during the year ending July 31, 2009 from these two swaps was determined to be immaterial.

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

		(in thousands)
Balance as of July 31, 2005	$	-
Change in fair value of swap agreement		-
Interest expense (income)		-
Balance as of July 31, 2006	$	-
Change in fair value of swap agreement		48
Interest expense (income)		-
Net cash settlements		-
Liability balance as of July 31, 2007	$	48
Change in fair value of swap agreement		141
Interest expense (income)		78
Net cash settlements		(75)
Liability balance as of July 31, 2008	$	192

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

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

Quarter Ended	Derivatives in Cash Flow Hedging Relationships		Effective Results Recognized in OCI	Location of Results Reclassifed from AOCI to Earnings	Amount Reclassified from AOCI to Income	Ineffective Results Recognized in Earnings	Location of Ineffective Results
10/31/07	Interest Rate contracts	$	(66)	Interest Income (Expense)	-		N/A
1/31/08	Interest Rate contracts	$	(201)	Interest Income (Expense)	(5)	-	N/A
4/30/08	Interest Rate contracts	$	28	Interest Income (Expense)	(24)	-	N/A
7/31/08	Interest Rate contracts	$	19	Interest Income (Expense)	(49)	(24)	N/A

Quarter Ended	Derivatives Not Designated in Hedging Relationships	Location of Results		Amount of Gain (Loss)
10/31/07	Gold contracts	Other Income (Expense)	$	(358)
1/31/08	Gold contracts	Other Income (Expense)	$	(345)
4/30/08	Gold contracts	Other Income (Expense)	$	(337)
7/31/08	Gold contracts	Other Income (Expense)	$	(319)

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

	Liability Derivatives		
October 31, 2007	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	115
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	613
January 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	313
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	660
April 30, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	274
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	702
July 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	192
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	738

NOTE 21 – Accrued Expenses

Accrued expenses at July 31, 2008 and 2007 consists of the following:

	(in thousands) July 31,			
	2008		2007	
Net profit interest	$	753	$	-
Net smelter return		189		-
Mining contract		193		51
Income tax payable		777		-
Utilities		110		165
Interest		72		100
Other liabilities		578		287

	$ 2,672	$ 603

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NOTE 22 - Income Taxes

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

	(in thousands)		
	July 31, 2008	July 31, 2007	July 31, 2006
Current:			
United States	$ -	$ -	$ -
Foreign	(2,111)	-	-
	(2,111)	-	-
Deferred:			
United States	-	-	-
Foreign	(1,396)	-	-
	(1,396)	-	-
Total	$ (3,507)	$ -	$ -

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

	(in thousands)		
	July 31, 2008	July 31, 2007	July 31, 2006
United States	$ (6,556)	$ (5,514)	$ (4,005)
Foreign	16,427	(1,958)	(800)
Total	$ 9,871	$ (7,472)	$ (4,805)

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

	(in thousands)		
	July 31, 2008	July 31, 2007	July 31, 2006
Income (loss) from operations before income tax	$ 9,871	$ (7,472)	$ (4,805)
US statutory corporate income tax rate	34%	34%	34%
Income tax (expense) benefit computed at US statutory corporate income tax rate	(3,356)	2,540	1,634
Reconciling items:			
Change in valuation allowance on deferred tax assets	(1,137)	(2,540)	(1,634)
Difference in foreign tax	986	-	-
Income tax expense	$ (3,507)	$ -	$ -

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

	(in thousands)		
	July 31, 2008	July 31, 2007	July 31, 2006
Net deferred income tax assets, non current:			
Remediation and reclamation costs	$ (29)	$ -	$ -
Net operating losses	9,334	8,197	5,823
Depreciation and amortization	602	-	-
	$ 9,907	$ 8,197	$ 5,823
Valuation allowances	(9,334)	(8,197)	(5,823)
	$ 573	$ -	$ -
Net deferred income tax liabilities, current:			
Depreciation and amortization	$ 12	$ -	$ -
Foreign currency exchange	2	-	-
Inventory valuation	(1,925)	-	-
Accounts receivable	(413)	-	-
Other	261	-	-
	$ (2,063)	$ -	$ -

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

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

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that the Company will not be liable for any excess flat tax for calendar year 2008 and, accordingly, has recorded a Mexican income tax provision as of July 31, 2008.

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

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

effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

For income tax purposes in the United States, the Company had available net operating loss carryforwards ("NOL") as of July 31, 2008, 2007 and 2006 of approximately $22,179, $17,464 and $15,048, respectively to reduce future federal taxable income. If any of the NOL's are not utilized, they will expire at various dates through 2027. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

NOTE 23 - Commitments and Contingencies

Lease Commitments

The Company occupies office space in New York City under a non-cancelable operating lease that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs.

Approximate future minimum payments under this lease are as follows (in thousands):

Fiscal Years Ending July 31,

2009	$	132
2010		142
2011		147
2012		151
2013		13
	$	585

Rent expense was approximately $107, $66 and $63 for the years ended July 31, 2008, 2007 and 2006, respectively.

Land Easement

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

El Charro

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

NOTE 24 – Unaudited Supplementary Data

The following is a summary of selected fiscal quarterly financial information (unaudited and 000's except per share data and price):

	2008 Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	$ 6,526	$ 8,043	$ 8,730	$ 9,805
Costs applicable to sales	$ 2,204	$ 2,419	$ 2,717	$ 3,350
Net income applicable to common shares	$ 1,747	$ 2,126	$ 2,740	$ (249)
Net income per common share, basic	$ 0.01	$ 0.01	$ 0.02	$ 0.00
Net income per common share, diluted	$ 0.01	$ 0.01	$ 0.01	$ 0.00
Basic weighted-average shares outstanding	170,855	174,765	175,645	175,040
Diluted weighted-average shares outstanding	192,998	196,191	197,239	195,469
Closing price of common stock	$ 0.63	$ 0.70	$ 0.65	$ 0.65

	2007 Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	$ -	$ -	$ -	$ -
Costs applicable to sales	$ -	$ -	$ -	$ -
Net loss applicable to common shares	$ (1,161)	$ (1,673)	$ (2,649)	$ (1,989)
Net loss per common share, basic	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.01)
Net income loss per common share, diluted(1)	$ -	$ -	$ -	$ -
Basic weighted-average shares outstanding	132,598	138,074	164,582	149,811
Diluted weighted-average shares outstanding(1)	-	-	-	-
Closing price of common stock	$ 0.31	$ 0.40	$ 0.41	$ 0.44

(1) Net loss per common share, diluted and computation of diluted weighted average common shares was not included as their effect would have been anti-dilutive.

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	2006 Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	$ -	$ -	$ -	$ -
Costs applicable to sales	$ -	$ -	$ -	$ -
Net loss applicable to common shares	$ (813)	$ (921)	$ (1,482)	$ (1,589)
Net loss per common share, basic	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Net income loss per common share, diluted(1)	$ -	$ -	$ -	$ -
Basic weighted-average shares outstanding	95,969	98,507	124,884	112,204
Diluted weighted-average shares outstanding(1)	-	-	-	-
Closing price of common stock	$ 0.23	$ 0.38	$ 0.35	$ 0.32

(2) Net loss per common share, diluted and computation of diluted weighted average common shares was not included as their effect would have been anti-dilutive.

NOTE 25 – Subsequent Events

On September 18, 2008, the Company closed its Amended And Restated Credit Agreement involving our wholly-owned Mexican subsidiaries MSR and Oro, as Borrowers, the Company, as guarantor, and Standard Bank PLC (“Standard Bank”), as the lender. The Company made its first principal payment of $1,125 on September 30, 2008.

In September 2008, our Board of Directors (the "Board") approved and recommended to our stockholders a proposal to effect a reverse stock split of all outstanding shares of our Common Stock in an amount which our Board of Directors deems appropriate to result in a sustained per share market price above $2.00 per share, to be at a ratio of not less than one-for-four and not more than one-for-six (the "Reverse Stock Split"). In conjunction with the Reverse Stock Split, our Board has approved and is recommending to our stockholders a proposal to effect a reduction in the number of shares of Common Stock authorized for issuance and an increase in the par value thereof in proportion to the Reverse Stock Split. We will not issue fractional shares in connection with the Reverse Stock Split. Any fractional shares that result from the Reverse Stock Split will be rounded up to the next whole share. However, if the Board determines that effecting these capitalization changes would not be in the best interests of our stockholders, the Board can determine not to effect any or all of the changes.

These changes, if authorized by the stockholders at the Meeting and if subsequently implemented by our Board of Directors, will be effected by the filing of an Amendment to our Certificate of Incorporation.

On August 11, 2008, Jeffrey Pritchard was appointed our Executive Vice President.

On October 28, 2008, we entered into an Engagement Agreement with John Brownlie, our Chief Operating Officer. The agreement supersedes a May 12, 2006 employment agreement between us and Mr. Brownlie. Pursuant to the Engagement Agreement, Mr. Brownlie serves as our Chief Operating Officer and receives a base annual fee of at least $259 and is entitled to annual bonuses. The Engagement Agreement runs through August 31, 2009, and

automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. We can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that we terminate him without cause or he terminates due to our breach, he will be entitled to certain severance payments. We previously entered into a change of control agreement with Mr. Brownlie similar to the agreements entered into with our other executive officers.

NOTE 26 -Securities and Exchange Commission Comment Letter

In response to a comment letter issued by the staff of the Securities and Exchange Commission, or the SEC, the accompanying consolidated financial statements include a statement of stockholders' equity for the year ended July 31, 2006 and expanded disclosures in the footnotes to the financial statements to cover each of the three years ended July 31, 2008, 2007 and 2006. The Company has also expanded its footnote disclosure regarding accounts receivable, marketable securities, ore on leach pads and inventory, long term debt, revenue recognition, equity based compensation, related party transactions, stockholders;' equity, employee and consulting agreements, sales contracts, and financial instruments. In addition, the Company made certain reclassifications that it determined were not material. These reclassifications had no impact on the Company's financial position, results of operations, stockholders' equity or cash flows.