CAPITAL GOLD CORP
Form 10-K/A
March 19, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Amendment No. 2)

FORM 10-K/A

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

FOR THE FISCAL YEAR ENDED JULY 31, 2008

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

Commission File No. 0-13078

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

State of Delaware (State or other jurisdiction of Incorporation or organization)	13-31805030 (I.R.S. Employer Identification No.)
76 Beaver Street, 14th Floor, New York, New York (Address of principal executive offices)	10005 (Zip Code)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or 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 x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity on January 31, 2008 held by non-affiliates computed by reference to the closing price of the issuer's Common Stock on that date, was $93,983,205 based upon the closing price ($0.70) multiplied by the 134,262,150 shares of the issuer's Common Stock held by non-affiliates.

The number of shares outstanding of each of the issuer's classes of common equity as of October 24, 2008: 192,974,824.

DOCUMENTS INCORPORATED BY REFERENCE: None.

Explanatory Note

Capital Gold Corporation (the “Company”) is filing this Amendment No. 2 to its Form 10-K for the fiscal year ended July 31, 2008, which was originally filed with the Securities and Exchange Commission (the "SEC") on October 29, 2008, as amended by Amendment No. 1 on Form 10-K/A filed on February 13, 2009 (“Amendment No. 1”). This Amendment No. 2. amends and restates Item 9A "Controls and Procedures" of Part II of Form 10-K as to the Company’s assessment of its disclosure controls and procedures and internal control over financial reporting, and includes the attestation report of Wolinetz, Lafazan & Company, P.C., the Company’s independent registered public accountants, and their financial statement opinion in order to update their reference to such new attestation report, included in Item 8 "Consolidated Financial Statements and Supplementary Data" of Part II of Form 10-K. The only changes to the material included in Item 8 were the changes to the reports of Wolinetz, Lafazan & Company, P.C. referred to above, and expanded disclosure of how the Company recognizes revenue in Note 2.. However, this Amendment No. 2 includes all of the disclosures required by both Items 8 and 9A of Part II of Form 10-K . Except as described above, Amendment No. 2 does not amend any other item of the Form 10-K and does not modify or update in any way the disclosures contained in the original filing on Form 10-K, as amended by Amendment No. 1. Accordingly, this Amendment No. 2 to Form 10-K should be read in conjunction with the Form 10-K, Amendment No. 1 and the Corporation's subsequent reports filed with the SEC.

New certifications of our principal executive officer and principal financial officer are included as exhibits to this amendment.

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 our 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.

The effectiveness of our internal controls over financial reporting as of July 31, 2008, has been audited by Wolinetz, Lafazan & Company, P.C., an independent registered public accounting firm, as stated in their report which is included in Item 8 – Financial Statements.

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

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

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: March 19, 2009

By: /s/ Gifford A. Dieterle, President

Gifford A. Dieterle, President

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 Notes 26 and 27, as to which the date is February 27, 2009)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Capital Gold Corporation:

We have audited the internal control over financial reporting of Capital Gold Corporation and subsidiaries (the "Company") as of July 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended July 31, 2008 of the Company and our report dated October 28, 2008 (Except for Notes 26 and 27, as to which the date is February 27, 2009) expressed an unqualified opinion on those financial statements.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
February 27, 2009

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

ASSETS	July 31, 2008	July 31, 2007
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		Additional paid-in-	Accumulated	Accumulated Other Comprehensive	Deferred Financing	Deferred	Total Stockholders'
	Shares	Amount	capital	Deficit	Income/(Loss)	Costs	Compensation	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.

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, 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.

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 dor 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 has been transferred to the customer and collection of the sales price is reasonably assured from the customer. The Company sells its precious metal content to a financial institution. Revenues are determined by selling the precious metal content at the spot price. Sales are calculated based upon assay of the dore’s precious metal content and its weight. The Company 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. The Company waits until the dore precious metal content is pledged to the customer at the refinery to recognize the sale because collectibility is not ensured until the dore precious metal content is pledged. The sale price is not subject to change subsequent to the initial revenue recognition date.

Revenues from by-product sales, which consists of silver, 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.

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.

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

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	July 31, 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 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 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.

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.

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)

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		
		$ 702

Gold derivatives	Other Liabilities	

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

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.

	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. In addition, it was determined that the Company should have been an accelerated filer and accordingly was required to have an audit performed of its internal controls over financial reporting.

NOTE 27 – Amendments to Employment and Engagement Agreements

On January 20, 2009, the Company entered into (i) amended and restated employment agreements with Gifford Dieterle, President and Treasurer, and Jeffrey Pritchard, Executive Vice President and (ii) amended and restated engagement agreements with Christopher Chipman, Chief Financial Officer, John Brownlie, Chief Operating Officer, and Scott Hazlitt, Vice President of Mine Development (collectively, the “Amended Agreements”). Among other things, the Amended Agreements removed a provision from the Agreement Regarding Change in Control, which is attached as an exhibit to each of the Amended Agreements, that provided that, upon a change in control of the Company, the exercise price of all issued and outstanding options would decrease to $0.01.