CAPITAL GOLD CORP
Form 10KSB
November 14, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

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

FOR THE FISCAL YEAR ENDED JULY 31, 2005

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

Commission File No. 0-13078

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

State of Nevada	13-31805030
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

76 Beaver Street, 26th Floor, New York, New York	10005
(Address of principal executive offices)	(Zip Code)

Issuer's telephone numbering: (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 $.001 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulations S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [ ]

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

State issuer's revenues (consisting solely of interest income and immaterial miscellaneous other income) for its most recent fiscal year. $46,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average between the closing bid ($0.228) and asked ($0.23) price of the issuer's Common Stock as of November 1, 2005, was $6,551,896 based upon the average between the closing bid and asked price ($0.229) multiplied by the 28,610,900 shares of the issuer's Common Stock held by non-affiliates. (In computing this number, issuer has assumed all record holders of greater than 5% of the common equity and all directors and officers are affiliates of the issuer.).

The number of shares outstanding of each of the issuer's classes of common equity as of November 1, 2005: 95,969,214

DOCUMENTS INCORPORATED BY REFERENCE: None.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

CAPITAL GOLD CORPORATION
Form 10-KSB
July 31, 2005

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GLOSSARY OF TECHNICAL TERMS

Caliche:	Sediment cemented by calcium carbonate near surface.
Diorite:	Igneous Rock
Dikes:	Tabular, vertical bodies of igneous rock.
Fissility:	Shattered, broken nature of rock
Fracture Foliations:	Fracture pattern in rock, parallel orientation, resulting from pressure.
Heap Leaching:	Broken and crushed ore on a pile subjected to dissolution of metals by leach solution.
Hydrometallurgical Plant:	A metallurgical mineral processing plant that uses water to leach or separate and concentrate elements or minerals.
Intercalated:	Mixed in
Litho static Pressure:	Pressure brought on by weight of overlaying rocks.
Major Intrusive Center:	An area where large bodies of intrusive igneous rock exist and through which large amounts of mineralizing fluids rose.
Mesothermal:	A class of hydrothermal ore deposit formed at medium temperatures and a depth over one mile in the earth's crust.
Microporphyritic Latite:	Extremely fine grained siliceous igneous rock with a distribution of larger crystals within.
Mudstone:	Sedimentary bed composed primarily of fine grained material such as clay and silt.
Mineral Deposit or Mineralized	Material: A mineralized rock mass which has been intersected by sufficient closely spaced drill holes and or underground sampling to support sufficient tonnage and average grade of metal(s) to warrant further exploration-development work. This deposit does not qualify as a commercially mineable ore body (Reserves), as prescribed under Commission standards, until a final and comprehensive economic, technical and legal feasibility study based upon the test results is concluded.
PPM:	Part per million.
Pyritized:	Partly replaced by the mineral pyrite.

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Reverse Circulation Drilling (or R.C. Drilling):	Type of drilling using air to recover cuttings for sampling through the middle of the drilling rods rather than the outside of the drill rods, resulting in less contamination of the sampled interval.
Sericitized:	Rocks altered by heat, pressure and solutions resulting in formation of the mineral sericite, a very fine grained mica.
Siltstone:	A sedimentary rock composed of clay and silt sized particles.
Silicified:	Partly replaced by silica.
Stockwork Breccia:	Earth's crust broken by two or more sets of parallel faults converging from different directions.
Stockwork:	Ore, when not in strata or in veins but in large masses, so as to be worked in chambers or in large blocks.
Surface Mine:	Surface mining by way of an open pit without shafts or underground working.

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PART I

Item 1. Description of Business

Through a wholly-owned subsidiary and an affiliate, Capital Gold Corporation (the "Company," "we" or "us") owns 100% of 16 mining concessions located in the Municipality of Altar, State of Sonora, Republic of Mexico totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles). We are in the process of constructing and developing an open-pit gold mining operation to mine two of these concessions.

We plan to construct a surface gold mine and facility at El Chanate capable of producing about 2.6 million metric tons per year of ore from which we anticipate recovering about 44,000 to 48,000 ounces of gold per year, over a six year mine life. We are following the updated feasibility study (the "2005 Study") for the project prepared by M3 Engineering of Tucson, Arizona which was completed in October 2005. The original feasibility study (the "2003 Study") was completed by M3 Engineering in August of 2003. Since completion of the 2003 Study, the price of gold and production costs have increased and equipment choices have broadened from those identified in the 2003 Study.

The 2005 Study primarily addresses the following changes from the 2003 Study:

- o an increase in the mine life from five to six years,
- o an increase in the base gold price from $325/oz to $375/oz,
- o use of a mining contractor,

- revised mining, processing and support costs,
- stockpiling of low grade material for possible processing in year 6, if justified by gold prices at that time,
- designed a reduced size of a waste rock dump and revised design of reclamation waste dump slopes,
- revised the process of equipment selection and
- evaluated the newly acquired water well for processing the ore

Pursuant to the 2005 Study, our mine life is now six years as opposed to five years and the ore reserve is 367,880 ounces of gold present in the ground (up 9,880 ounces). Of this, we anticipate recovering approximately 264,846 ounces of gold (up 16,846 ounces) over a six year life of the mine. The targeted cash cost per the 2005 Study is $259 per ounce (up $29 per ounce). The 2005 Study contains the same mining rate as the 2003 Study of 7,500 metric tonnes per day of ore. We also have commissioned an engineering study to analyze the benefits of expanding production rates beyond 7,500 metric tones per day of ore. The 2005 Study takes into consideration a different crushing system than the one contemplated in the 2003 Study. The system referred to in the 2005 Study is a new more modern system, that, we believe will be faster to install and provide more efficient processing capabilities than the used equipment referred to in the 2003 Study. In addition, the 2005 Study assumes a contractor will mine the ore and haul it to the crushers. In the 2003 Study, we planned to perform these functions. We have interviewed firms to provide contract mining services for the El Chanate project. While we believe we are nearing successful completion of negotiations with the contractor of choice, there is no guarantee that these negotiations will be successful.

Sonora, Mexico

El Chanate

In June 2001, we purchased 100% of the issued and outstanding stock of Minera Chanate, S.A. de C.V. from AngloGold North America Inc. and AngloGold (Jerritt Canyon) Corp. Minera Chanate's assets at the time of the closing of the purchase consisted of 106 exploitation and exploration concessions in the States of Sonora, Chihuahua and Guerrero, Mexico. By June of 2002, after property reviews and to minimize tax payments, the 106 had been reduced to 12 concessions. To cover certain non-critical gaps between concessions, three new concessions were located, and the number of concessions is now 16. These concessions are contiguous, totaling approximately 3,544 hectares (8,756 acres or 13.7 square miles). We sometimes refer to these concessions as the El Chanate concessions. Although there are 16 concessions, we only plan to mine two of these concessions at the present time. We sometimes refer to the planned operations on these two concessions as the El Chanate project We also own outright 466 hectares (1,151 acres or 1.8 square miles) of surface rights at El Chanate and no third party ownership or leases exist on this fee land or the El Chanate concessions. For more detailed information on the El Chanate concessions please see "Item 2. Description of Property." In the future, assuming adequate funding is available, we plan on conducting exploration activities on some of the other concessions.

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

Under the terms of the agreement, we have granted AngloGold the right to designate one of its wholly-owned Mexican subsidiaries to receive a one-time option to purchase 51% of Minera Chanate (or such entity that owns the El Chanate concessions at the time of option exercise). That option is exercisable over a 180 day period commencing at such time as we notify AngloGold that we have made a good faith determination that we have gold-bearing ore deposits on any one of the identified groups of El Chanate concessions, when aggregated with any ore that we have mined, produced and sold from such concessions, of in excess of 2,000,000 troy ounces of contained gold. The exercise price would equal twice our project costs on the properties during the period commencing on December 15, 2000 and ending on the date of such notice. Based on current information available to us, we do not believe a deposit of the size that would trigger these back-in rights is likely to be identified at El Chanate.

In February 2002, Minera Santa Rita S. de R.L. de C.V., one of our wholly-owned Mexican affiliates ("Santa Rita"), now the leasee of the El Chanate concessions, as discussed below, entered into a joint venture agreement with Grupo Minero FG S.A. de C.V. to explore, evaluate and develop the El Chanate concessions. Grupo Minero FG S.A. de C.V., referred to as FG, is a private Mexican company that owns and operates the La Colorada open-pit gold mine outside of Hermosillo in Sonora, Mexico.

Effective March 31, 2004, the joint venture agreement with FG was terminated. In consideration of FG's contributions to the venture of $457,455, we issued to FG 2,000,000 restricted shares of our Common Stock valued at $800,000 and Santa Rita issued to FG a participation certificate entitling FG to receive

five percent of the Santa Rita's annual dividends, when declared. The participation certificate also gives FG the right to participate, but not to vote, in the meetings of Santa Rita's Board of Managers, Technical Committee and Partners. Santa Rita also received a right of first refusal to carry out the works and render construction services required to effectuate the El Chanate project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services.

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

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

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

We anticipate that the development of our El Chanate project will cost between $17.5 and $18.5 million. In February 2005, we raised approximately $6.1 million in a private placement and we mandated Standard Bank Plc. (formerly, Standard Bank London Limited) as the exclusive arranger of a project finance facility of up to US$10 million for our El Chanate project. This mandate is not a commitment to provide the funding. Funding is subject to satisfactory completion of due diligence, approvals from Standard Bank's credit committee and execution of definitive documentation. We anticipate a decision from Standard Bank in early November 2005. We will need this finance facility or comparable funding from another source to develop the El Chanate project and commence production. We believe that the net proceeds from the private placement and the anticipated funds from Standard will not be adequate to complete construction and commence mining operations. Please see "Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations; Liquidity and Capital Resources; Plan of Operations" for more information on the Standard Bank mandate, the private offering and our plans to raise additional funds.

In May 2005, we acquired rights to the El Charro concession for approximately $25,000 and a royalty of 1.5% of net smelter return. We acquired the El Charro concession because it is surrounded entirely by our other concessions.

Leadville, Colorado Properties

We own or lease a number of claims and properties, all of which are located in California Mining District, Lake County, Colorado, Township 9 South, Range 79. For the past three years, activity at our Leadville, Colorado properties consisted primarily of mine maintenance. Primarily as a result of our focus on El Chanate, we ceased activities in Leadville, Colorado. During the year ended July 31, 2002,

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we performed a review of our Leadville mine and mill improvements and determined that an impairment loss should be realized. Therefore, we significantly reduced the carrying value of certain assets relating to our Leadville, Colorado assets by $999,445. During the year ending July 31, 2004, we again performed a review of our Colorado mine and mill improvements and determined that an additional impairment loss should be recognized. Accordingly, we further reduced the net carrying value to $0, recognizing an additional loss of $300,000. See "Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations; Results of Operations."

Competition

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

Human Resources

As of November 1, 2005, we had nine full time employees and/or consultants, including our current officers and one administrative personnel in the US and, in Mexico, a General Project Manager, an Administration Manager and an Environmental Manager and one part-time consultant in Mexico..

Cautionary Statement on Forward-Looking Statements

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

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

Risk Factors

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

Risks related to our business and operations

We have not generated any operating revenues. If we are unable to commercially develop our mineral properties, we will not be able to generate profits and our business may fail.

To date, we have no producing properties. As a result, we have no current source of operating revenue and we have historically operated and continue to operate at a loss. Our ultimate success will depend on our ability to generate profits from our properties. Our viability is largely dependent on the successful commercial development of our El Chanate gold mining project in Sonora, Mexico.

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

We do not generate any positive cash flow from operations and we do not anticipate that any positive cash flow will be generated for some time. Our primary focus is the development of our El Chanate project which, we anticipate, will cost between $17.5 and $18.5 million. We also anticipate non-mine related operating expenses of approximately $1.4 million. In February 2005, we raised approximately $6.1 million in a private placement and we mandated Standard Bank Plc. (formerly, Standard Bank London Limited) as the exclusive arranger of a project finance facility of up to US$10 million for our El Chanate project. This mandate is not a commitment to provide the funding. Funding is subject to satisfactory completion of due diligence, approvals from Standard Bank's credit committee and execution of definitive documentation. We will need this finance facility or comparable funding from another source to develop the El Chanate project and commence production. The net proceeds from the private placement and the anticipated funds from Standard will not be adequate to complete construction, commence mining operations and cover administrative expenses (see, ""Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations; Liquidity and Capital Resources; Plan of Operations"). For the above reasons, we may need to obtain additional capital from outside sources. To the extent that we need to obtain additional capital, management intends to raise such funds through bank financing, the sale of our securities (see the next risk factor), the sale of a royalty interest in the future production from the Chanate concessions and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding will be available. If we are unable to obtain needed capital from outside sources, we will be forced to reduce or curtail our operations.

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If our stockholders do not approve an amendment to our Articles of Incorporation to increase the number of shares we are authorized to issue, we will be unable to raise additional needed funds through the sale of equity securities and it may make it more difficult to attract independent directors and key employees.

As of November 1, 2005, we have approximately 95,969,214 shares of Common Stock outstanding and approximately 51,213,367 shares reserved for future issuance under outstanding options, warrants and our mandate with Standard Bank Plc., leaving only approximately 2,817,419 shares of Common Stock available for future issuances. We have scheduled a special meeting of our stockholders to be held on November 18, 2005 to approve an amendment to our Articles of Incorporation to increase the number of our authorized shares. As discussed in the risk factors above, we will need to raise additional funds. In addition, we will need additional shares for other corporate purposes including, possibly, attraction of independent directors and key employees. If our stockholders do not approve this amendment, we most likely will not be able to raise additional needed funds through the sale of equity securities. As a result, we would be forced to reduce or curtail our operations.

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

Our consolidated financial statements for the year ended July 31, 2005 included herein have been prepared on the basis of accounting principles applicable to a going concern. Our auditors' report on the consolidated financial statements contained herein includes an additional explanatory paragraph following the opinion paragraph on our ability to continue as a going concern. A note to these consolidated financial statements describes the reasons why there is substantial doubt about our ability to continue as a going concern and our plans to address this issue. Our July 31, 2005 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our inability to continue as a going concern would require a restatement of assets and liabilities on a liquidation basis, which would differ materially and adversely from the going concern basis on which our consolidated financial statements have been prepared. See, "Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

We are currently in discussion with a US supplier to acquire a crushing system, including conveyors, that consists of new equipment. We plan to use this equipment at our Mexican concessions. If we are unable to obtain requisite equipment at an acceptable cost, our planned mining operations and our anticipated results of operations from mining at these concessions, once mining commences, may be adversely affected (see, "Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations; Liquidity and Capital Resources; Plan of Operations").

We will be using reconditioned and used equipment which could adversely affect our cost assumptions and our ability to economically and successfully mine the project.

We plan to use reconditioned and used carbon column collection equipment to recover our gold. Such equipment is subject to the risk of more frequent breakdowns and need for repair than new equipment. If

the equipment that we use breaks down and needs to be repaired or replaced, we will incur additional costs and operations may be delayed resulting in lower amounts of gold recovered. In such event, our capital and operating cost assumptions may be inaccurate and our ability to economically and successfully mine the project may be hampered, resulting in decreased revenues and, possibly, a loss from operations.

As a result of the projected short mine life of six years, if major problems develop, we will have limited time to correct these problems and we may have to cease operations earlier than planned.

Pursuant to the 2005 Study, the mine life will be only six years. If major problems develop in the project, or we fail to achieve the operating efficiencies or costs projected in the feasibility study, we will have limited time to find ways to correct these problems and we may have to cease operations earlier than planned.

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

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

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

Our only current properties are the El Chanate concessions and our Leadville properties. At present, we are not doing any substantive work at our Leadville properties and, in fact, have written these properties off. Our El Chanate concessions are owned by one of our wholly-owned subsidiaries, Oro de Altar. Santa Rita, another of our Mexican subsidiaries leases the land and claims at El Chanate from Oro de Altar. FG, our former joint venture partner, has the right to receive five percent of Santa Rita's annual dividends, when declared. We currently do not have operations on either of our properties, and we must commence such operations to receive revenues. Accordingly, we are dependent upon the success of the El Chanate concessions.

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

The profitability of any gold mining operations in which we have an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. Between January 1, 2005 and October 31, 2005, the fixed price for gold on the London Exchange has fluctuated between $411.10 and $478.50 per ounce. Gold prices are affected by numerous factors beyond our control, including:

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

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

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

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

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

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

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

If and when we commence sales of gold, such sales will be made in U.S. dollars. We incur a significant amount of our expenses in Mexican pesos. As a result, our financial performance would be affected by fluctuations in the value of the Mexican peso to the U.S. dollar. At the present time, we have no plan or policy to utilize forward contracts or currency options to minimize this exposure; however, pursuant to the mandate with Standard Bank Plc. we will be required to implement such measures. If and when these measures are implemented, there can be no assurance that such arrangements will be cost effective or be able to fully offset such future currency risks.

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

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

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

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

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

With respect to environmental regulation, environmental legislation generally is evolving in a manner which will require:

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

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

We are not insured against any losses or liabilities that could arise from our operations because we have not commenced operations at El Chanate.

Although we plan on obtaining insurance once construction begins, such insurance may not be adequate. If we incur material losses or liabilities because we do not have insurance or our coverage is not adequate, our financial position could be materially and adversely affected.

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

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

Such risks could result in:

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

Industrial accidents could have a material adverse effect on our future business and operations. Although as we move forward in the development of our concessions we plan to obtain and maintain insurance within ranges of coverage consistent with industry practice, we cannot be certain that this insurance will cover the risks associated with mining or that we will be able to maintain insurance to cover these risks at economically feasible premiums. We also might become subject to liability for pollution or other hazards which we cannot insure against or which we may elect not to insure against because of premium costs or other reasons. Losses from such events may have a material adverse effect on our financial position.

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

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

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We are dependent on the efforts of certain key personnel and we need to retain additional personnel and/or contractors to develop our El Chanate project. If we lose the services of these personnel or we are unable to retain additional personnel and/or contractors, our ability to complete development and operate our El Chanate project may be delayed and our planned operations may be materially adverse affected.

We are dependent on a relatively small number of key personnel, including but not limited to Dave Loder, the General Manager of the project, the loss of any one of whom could have an adverse effect on us. In addition, while certain of our officers and directors have experience in the exploration and operation of gold producing properties, we need to retain additional personnel and/or contractors to develop and operate our El Chanate project. Certain of these consultants, including Dave Loder, have already been engaged. There can be no guarantee that such personnel or contractors will be available to carry out such activities on our behalf or be available upon commercially acceptable terms. If we lose the services of our key personnel or we are unable to retain additional personnel and/or contractors, our ability to complete development and operate our El Chanate project may be delayed and our planned operations may be materially adverse affected.

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

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

Should we successfully commence mining operations in Mexico, our ability to remain profitable long term, should we become profitable, eventually will depend on our ability to find, explore and develop additional properties. Our ability to acquire such additional properties will be hindered by competition. If we are unable to acquire, develop and economically mine additional properties, we most likely will not be able to be profitable on a long-term basis.

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

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

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

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

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

- the price of gold,
- the particular attributes of the deposit, such as its
  - size,
  - grade and
  - proximity to infrastructure,
- financing costs,
- taxation,
- royalties,
- land tenure,
- land use,
- water use,
- power use,
- importing and exporting gold and
- environmental protection.

The effect of these factors cannot be accurately predicted.

Risks related to ownership of our stock

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

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

Our stock price may be adversely affected if a significant amount of shares are sold in the public market.

As of November 1, 2005, approximately 55,040,500 shares of our Common Stock, constituted "restricted securities" as defined in Rule 144 under the Securities Act of 1933. Approximately 50.6 % of these shares have been registered for public resale and we have agreed to register an additional 5,440,000 of these shares. In addition, we have registered 30,902,004 shares of Common Stock issuable upon the exercise of outstanding warrants and 4,711,363 shares of Common Stock issuable upon the exercise of outstanding options. All of the foregoing shares, assuming exercise of all of the above options and warrants, would represent in excess of 50% of the then outstanding shares of our Common Stock. Registration of the shares permits the sale of the shares in the open market or in privately negotiated transactions without compliance with the requirements of Rule 144. To the extent the exercise price of the warrants or options is less than the market price of the Common Stock, the holders of the warrants are likely to exercise them and sell the underlying shares of Common Stock and to the extent that the conversion price and exercise price of these securities are adjusted pursuant to anti-dilution protection, the securities could be exercisable or convertible for even more shares of Common Stock. In addition, should we consummate the project finance facility with Standard Bank, we will be required to issue warrants for an additional 14.6 million shares and to register the shares issuable upon exercise of these warrants for public resale. We also may issue shares to be used to meet our capital requirements or use shares to compensate employees, consultants and/or directors. We are unable to estimate the amount, timing or nature of future sales of outstanding Common Stock. Sales of substantial amounts of our Common Stock in the public market could cause the market price for our Common Stock to decrease. Furthermore, a decline in the price of our Common Stock would likely impede our ability to raise capital through the issuance of additional shares of Common Stock or other equity securities.

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

Our board of directors determines whether to pay dividends on our issued and outstanding shares. The declaration of dividends will depend upon our future earnings, our capital requirements, our financial condition and other relevant factors. Our board does not intend to declare any dividends on our shares for the foreseeable future. We anticipate that we will retain any earnings to finance the growth of our business and for general corporate purposes. In addition, our ability to pay dividends may be restricted by financial covenants in any project finance facility we enter into with Standard Bank or another lender.

If our Common Stock is deemed to be a "penny stock," trading of our shares would be subject to special requirements that could impede our stockholders' ability to resell their shares.

"Penny stocks" as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission are stocks:

i. with a price of less than five dollars per share;

ii. that are not traded on a recognized national exchange;

- o whose prices are not quoted on the NASDAQ automated quotation system; or

iii. of issuers with net tangible assets equal to or less than

- o -$2,000,000 if the issuer has been in continuous operation for at least three years; or
- o -$5,000,000 if in continuous operation for less than three years, or
- o of issuers with average revenues of less than $6,000,000 for the last three years.

Our Common Stock is not currently a penny stock because we have net tangible assets of more than $2,000,000. Should our net tangible assets drop below $2,000,000 and we do not meet any of the other criteria for exclusion of our Common Stock from the definition of penny stock, our Common Stock will be a penny stock.

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

i. to obtain from the investor information concerning his or her financial situation, investment experience and investment objectives;

ii. to determine reasonably, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions;

iii. to provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and

iv. to receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

Should our Common Stock be deemed to be a penny stock, compliance with the above requirements may make it more difficult for holders of our Common Stock to resell their shares to third parties or to otherwise dispose of them.

Item 2. Description of Property

El Chanate Properties - Sonora, Mexico

Through our wholly-owned subsidiary, Oro de Altar S. de R. L. de C.V., and our affiliate, Santa Rita, we own 100% of the following 16 mining concessions, all of which are located in the Municipality of Altar, State of Sonora Republic of Mexico.

	Concession Name	Title No.	Hectares
1	San Jose	200718	96.0000
2	Las Dos Virgen	214874	132.2350
3	Rono I	206408	82.1902
4	Rono 3	214224	197.2180
5	La Cuchilla	211987	143.3481
6	Elsa	212004	2,035.3997
7	Elisa	214223	78.4717
8	Ena	217495	190.0000
9	Eva	212395	416.8963
10	Mirsa	212082	20.5518
11	Olga	212081	60.5890
12	Edna	212355	24.0431
13	La Tira	219624	1.7975
14	La Tira 1	219623	18.6087
15	Los Tres	223634	8.000
16	El Charro	206,404	40.0000
		Total	3,543.3491

At the El Chanate Project, our current planned mining activities, will involve mining on two concessions, San Jose and Las Dos Virgens. We will utilize four other concessions for processing mined ores. In the future, provided we have adequate funding, we plan to explore some or all of these concessions to determine whether or not further activity is warranted.

[Graphic of a map showing geographic location of our Mexican concessions is depicted in the printed material.]

Surface Property Ownership

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

General information and location

The El Chanate project is located in the State of Sonora, Mexico, 37 kilometers northeast of the town of Caborca. It is accessible by paved and all weather dirt roads typically traveled by pickup trucks and similar vehicles. Driving time from Caborca is approximately 40 minutes. Access from Caborca to the village of 16 de September is over well maintained National highways. Beyond the 16 de September village, routes to the property are currently over well traveled gravel and sandy desert roads suitable for lightweight vehicles. We acquired rights for a service road to allow immediate access for mine construction activities. This service road access was acquired from the village of 16 de September, and construction of this road is now complete. However, this road will likely require some up grading before large crushing and processing equipment can safely be moved to the mine site. In addition to this service road, we have negotiated long term access that does not pass through the village of 16 de September. However, an issue has arisen with regard to whether the land owner from whom we acquired this right had adequate title to this land. In the event that we are unable to obtain adequate title to this land, we will continue to rely on the existing access through the Village of 16 de September.

The project is situated on the Sonora desert in a hot and windy climate, generally devoid of vegetation with the exception of cactus. The terrain is generally flat with immense, shallow basins, scattered rock outcropping and low rocky hills and ridges. The desert floor is covered by shallow, fine sediment, gravel and caliche. The main body of the known surface gold covers and irregularly shaped area of approximately 1,800 feet long by 900 feet wide. Several satellite mineral anomalies exist on surfaces which have not been thoroughly explored. Assays on chip samples taken from trenches at these locations by us indicate the presence of gold mineralization.

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

Geology

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

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

Alteration/Mineralization

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

Work to Date

The El Chanate property has been the site of small scale mining of high grade quartz veins (La Cuchilla mine) during the last century. Modern exploration includes work by Phelps Dodge in the 1980's as part of a copper exploration program. Kennecott conducted geologic mapping and geochemical sampling in 1991 and dropped the property. A Mexican subsidiary of AngloGold explored the property intermittently between 1992 and 1997, and has conducted extensive surface geologic mapping, geochemical sampling, geophysical studies and drilling, including 11,000 meters of trenching, over 14 line-kilometers of induced polarization geophysical surveys, 61 line-kilometers of VLF-magnetometry geophysical surveys, 87 line-kilometers of enzyme leach geochemical surveys and 34,000 meters of R.C. drilling in 190 holes and 1080 meters of diamond drilling in 9 holes. That company also commissioned various consultant studies concerning petrography, fluid inclusions, air photo interpretation and structural analyses, and conducted some metallurgical test work.

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

In August 2002, we retained SRK's (a global engineering company) Denver, Colorado office to conduct a scoping engineering study for the El Chanate Project. This study was completed in October 2002 and concluded that the El

Chanate Project deserved additional work and that the property contained important gold mineralization. The base case for this study assumed a gold price of $320.

Following SRK's positive conclusion, in February 2003, we retained M3 Engineering of Tucson, Arizona to begin work on a feasibility study. M3 completed the study in August 2003. Based on 253 drill holes and more than 22,000 gold assays, this study (the "2003 Study") provides details for an open pit gold mine. The 2003 Study indicates that at a gold price of $325, the initial open pit project contains proven and probable reserves of 358,000 ounces of gold contained within 13.5 million metric tonnes of ore with an average grade of 0.827 grams/tonne. It estimated that the mine could recover approximately 48,000 - 50,000 ounces of gold per year or 248,854 ounces over a five year mine life.

In October 2005, M3 completed an update of the 2003 Study (The "2005 Study"). The 2005 Study primarily addresses the following changes from the 2003 Study:

- an increase in the mine life from five to six years,
- an increase in the base gold price from $325/oz to $375/oz,
- use of a mining contractor,
- revised mining, processing and support costs,
- stockpiling of low grade material for possible processing in year 6, if justified by gold prices at that time,
- designed a reduced size of a waste rock dump and revised design of reclamation waste dump slopes,
- revised the process of equipment selection and
- evaluated the newly acquired water well for processing the ore

Pursuant to the 2005 Study, the mine life will be six years as opposed to a previous five years, and the ore reserve is 367,880 ounces of gold present in the ground. Of this, we anticipate recovering approximately 264,846 ounces of gold over a six year life of the mine. In the 2005 Study, the contained reserve ounces increased by 9,880 ounces, and the recovered gold increased by 16,846 ounces. The targeted cash cost per the 2003 Study was less than $230 per ounce. Cash costs per ounce in the 2005 Study are $259. The 2005 Study contains the same mining rate as the 2003 Study of 7,500 metric tonnes per day of ore. We have commissioned an engineering study to analyze the benefits of expand production rates beyond 7,500 metric tones per day of ore. The 2005 Study takes into consideration a new crushing system using new machines as opposed to the used and restored equipment contemplated in the 2003 Study. The system referred to in the 2005 Study is a new more modern system, that, we believe will be faster to install and provide more efficient processing capabilities than the used equipment referred to in the 2003 Study. In addition, the 2005 Study assumes that a contractor will mine the ore and haul it to the crushers. In the 2003 Study, we planned to perform these functions. We have interviewed firms to provide contract mining services for the El Chanate project. While we believe we are nearing successful completion of negotiations with the contractor of choice, there is no guarantee that these negotiations will be successful.

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

The following Summary is contained in the 2005 Study. Please note that the reserves as stated are an estimate of what can be economically and legally recovered from the mine and, as such, incorporate losses for dilution and mining recovery. The 367,880 ounces (or 11.4 Tons) of contained gold represents ounces contained in ore in the ground, and therefore does not reflect losses in the recovery process. Total gold produced is estimated to be approximately 264,846 ounces (or 8.24 Tons), or approximately 70% of the contained gold. The gold recovery rate is expected to average approximately 70% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 73% to 48%. Oxidized and sandstone ore types may have recoveries of about 73%; fault zone ore type recoveries may be about 64%; and siltstone ore types recoveries may be about 48%.

El Chanate Project

Reserves and Production Summary
(2005 Updated Feasibility Study Page 1-1)

	Metric	U.S.
Reserves		
Ore	14.1 Million Tonnes @ 0.812 g/t*	15.5 Million Tons @ 0
Low Grade	1.0 Million Tonnes @ 0.445 g/t	1.1 Million Tons @ 0.
Waste	9.5 Million Tonnes	10.5 Million Tons
Total	24.6 Million Tonnes	27.1 Million tons
Contained Gold	11.4 Million grams	367,880 Oz
Contained Gold in Low Grade	0.46 Million grams	14,793 Oz
Production		
Ore Crushed		
	2.6 Million Tonnes /Year	2.86 Million Tons/Yea
Operating Days/Year	7,500 Mt/d*	8,250 t/d
Gold Plant Average Recovery	365 Days per year	365 Days per year
Average Annual Production	69.2%	69.2%
Total Gold Produced	1.4 Million grams	44,390 Oz per year
	8.24 Million grams	264,846 Oz

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

Pursuant to the 2005 Study, based on the current reserve calculations, the mine life is estimated to be approximately 72 months, and another year will likely be required for reclamation. The study forecasts initial capital costs of $17.9 million, which includes $1.7 million of working capital. Annual production is planned at approximately 44,000 to 48,000 ounces per year at an average operating cash cost of $259 per ounce. The cash cost may decrease as the production rate increases. Total costs will vary depending upon the price of gold (due to the nature of underlying payment obligations to the original owner of the property). Total costs are estimated in the 2005 Study to range between $339 per ounce at a gold price of $417 per ounce and $353 per ounce at a gold price of $459 per ounce. We will be working on measures to attempt to reduce costs going forward. Ore reserves and production rates are based on a gold price of $375 per ounce, which is the Base Case of the 2005 Study. Between January 1, 2005 and October 31, 2005, the fixed price for gold on the London Exchange has fluctuated between $411.10 and $478.50 per ounce.

Management believes that the capital costs to establish a surface, heap leach mining operation at El Chanate will be between $17.5 and $18.5 million. We anticipate that we will have to raise additional funds as the net proceeds of our February 2005 private placement and the potential project finance facility of up to US$10 million will not be adequate to complete mine construction. To the extent that

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

Management believes the El Chanate project will benefit substantially from rising gold prices, which are currently above $450 per ounce. Mineralized material previously below operating cut-off gold grades could possibly become economic if future engineering studies support lowering the cutoff grade due to gold prices substantially above the $375 per ounce used in the 2005 Study to define the proven and probable reserves mentioned above. We are currently looking at equipment and processing techniques that may be capable of supporting higher production rates that may be justified due to rising gold prices. However, the new crushing system will likely have to be modified to handle the additional tonnage required for expanding our production. The crushing system that we hope to acquire, with certain modifications, is expected to have a capacity beyond the 7,500 metric tons per day that are initially planned.

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

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

The latest metallurgical column test studies were completed earlier this year at Metcon's laboratory in Tucson Arizona to determine the optimal conditions at El Chanate for recovering gold from within siltstone host rocks using heap leach technology. The siltstone drill core samples are being tested at crush sizes of 100 percent -3/8 inch and 100 percent -1/4 inch, and these column tests showed recovery rates of 42% and 46% respectively. With rising gold prices, management believes the ore reserves may increase beyond the level currently published in the 2005 Study. Although we are optimistic about the results, there can be no assurance that improved gold recoveries will result in an increase in reserves.

In January 2004, we received permits from the Mexican Department of Environmental Affairs and Natural Resources necessary to begin construction of the El Chanate project. The permits were extended in June 2005. Pursuant to the extensions, once we file a notice that work has commenced, we will have one year to prepare the site and construct the mine and seven years to mine and process ores from the site. These permits also cover the operation of a heap-leach gold recovery system.

In 2005, we acquired 15 year rights of way for the current access road, and we acquired the right to purchase 81 hectares of land near the main highway. We have use of the land; however, our actual purchase of the land is conditioned upon the Ejido (local cooperative) privatizing the land, before the acquisition is finalized. We subsequently purchased an extension of our rights-of-way from 15 to 30 years. We have completed an access road on this land that will provide access for water and power lines. However, this road will likely require some up grading before heavy equipment can be moved to the mine site. In addition to this road, we acquired a water concession, and our water well is located within a large regional aquifer that, we believe, is capable of producing a sustained flow in excess of 300 gallons per minute, which is the flow rate we estimate to be required for processing gold ore at El Chanate

As discussed above, we are considering acquiring a new crushing system capable of producing 7,500 metric tons per day of ore. We also retained Golder Associates, - a geotechnical engineering firm, for the detailed engineering of the leach pads and ponds. This design is included in the 2005 Study.

Our Current Plans for the El Chanate Project

Construction of the access road is complete and equipment can be moved to the property. Some road up grading will likely be required before very large equipment is moved to a final location. A crushing and conveying system has been selected and we plan purchase this equipment once project funding is complete.

Once financing is available we plan to commence construction on the crushing, heap leaching, carbon handling and refining portions of the project. Also included in the construction phase will be installation of power and water lines. These construction phase activities will require some additional detailed engineering, but major parts of the project are turnkey and already have existing detailed engineering drawings. Some buildings for an office, chemical laboratory, warehouse and truck shops also will be built as part of the construction phase. Please see "Part II, Item 6, Management's Discussion and Analysis of Financial Condition and Results of Operations; Liquidity and Capital

Resources; Plan of Operations for the anticipated costs of our activities over the next 12 months.

Item 3. Legal Proceedings

We are not presently a party to any material litigation.

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

No matters were submitted to a vote of our shareholders during the fourth quarter of fiscal 2004.

We have scheduled a special meeting of our stockholders to be held on November 18, 2005. At this meeting, our stockholders will be asked to approve the following:

1. an amendment to our Articles of Incorporation to increase the authorized number of shares of capital stock from 150,000,000 shares to 200,000,000 shares; and

2. a change in our state of incorporation from Nevada to Delaware, to be effected by a merger of the Company with and into Capital Gold Corporation, a newly-formed Delaware corporation and one of our wholly-owned subsidiaries.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

(a) Marketing Information -- The principal U.S. market in which our common shares (all of which are of one class, $.001 par value Common Stock) are traded or will trade is in the over-the-counter market (Bulletin Board Symbol: "CGLD"). Our stock is not traded or quoted on any Automated Quotation System.

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

MARKET PRICE OF COMMON STOCK

	Bid	
Quarter Ending	High and	Low
October 31, 2005	0.26	0.172
July 31, 2005	0.24	0.16
April 30, 2005	0.40	0.17
January 31, 2005	0.39	0.23
October 31, 2004	0.33	0.19

July 31, 2004	0.31	0.20
April 30, 2004	0.58	0.27
January 31, 2004	0.65	0.23
October 31, 2003	0.28	0.20

(b) Holders -- The approximate number of record holders of our Common Stock, as of November 1, 2005 amounts to 1,211 inclusive of those brokerage firms and/or clearing houses holding our common shares for their clientele (with each such brokerage house and/or clearing house being considered as one holder). The aggregate number of shares of Common Stock outstanding is 95,969,214 as of November 1, 2005.

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

During the quarter ended July 31, 2005, we issued the following shares of our Common Stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: Related parties exercised 227,273 options for gross proceeds of $5,000. 300,000 options were exercised by others as payments of accounts payable in the amount of $36,000. The Company also issued 5,440,000 shares of its common stock as liquidated damages in connection with not timely listing our stock on the Toronto Stock Exchange.

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We did not repurchase any of our securities during the fiscal year ended July 31, 2005.

The following table gives information about our Common Stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of July 31, 2005.

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, warrants and rights	Weighted-av exercise pr outstand options, wa and righ
	(a)	(b)
Equity compensation plans approved by security holders:	-0-	$ -0-
Equity compensation plans not approved by security holders:	90,909	$ .022
	2,702,000	.25
	550,000	.05

	3,120,454	.50
	100,000	.24
	1,250,000	.21
	27,200,004	.30
	500,000	.22
	1,000,000	.32
	100,000	.41
Total	36,613,367	$ .31

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Result of Operations

Fiscal year ended July 31, 2005 compared to fiscal year ended July 31, 2004

Revenues

We generated no revenues from mining operations during the fiscal year ended July 31, 2005 and 2004. There were de minimis non-operating revenues during the fiscal year ended July 31, 2005 and 2004 of approximately $46,005 and $4,000, respectively. These non-operating revenues primarily represent interest income.

Costs and Expenses

Over all costs and expenses during the fiscal year ended July 31, 2005 were $2,051,687 an increase of $11,882 or 0.6% from the fiscal year ended July 31, 2004. The primary reason for the increase during the fiscal year ended July 31, 2005 was increases in mine and in selling, general and administrative expenses offset by a reduction in stock based compensation and no impairment loss incurred during the year ending July 31, 2005.

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

Mine expenses during the fiscal year ended July 31, 2005 were $851,374 an increase of $178,324 or 26% from the fiscal year ended July 31, 2004. We believe that the increase in mine expenses resulted primarily from increased professional and engineering and consulting costs as well as continuing development of the mine.

Selling, general and administrative expenses during the fiscal year ended July 31, 2005 were $1,005,038 an increase of $317,316 or 46% from the fiscal year ended July 31, 2004. We believe that the increase in selling, general and administrative expenses resulted primarily from an increase in professional, consulting fees as well as travel expenses and public relations costs incurred in connection with fund raising efforts during the fiscal year ended July 31, 2005.

Stock based compensation during the fiscal year ended July 31, 2005 was $187,844 compared to $379,033 for the fiscal year ended July 31, 2004. This decrease resulted from a reduction in the amount of options granted and common stock issued for services rendered during the fiscal year ended July 31, 2005.

Loss on Joint Venture for the fiscal year ended July 31, 2005 was $0 compared to $800,000 for the fiscal year ended July 31, 2004. The Joint Venture was terminated during the quarter ended April 30, 2004.

Loss on the write-off of minority interest was $0 for the fiscal year ended July 31, 2005 compared to $150,382 for the fiscal year ended July 31, 2004. Since the Joint Venture was terminated during the quarter ended April 30, 2004 there is no longer a minority interest.

Net Loss

As a result, our net loss for the fiscal year ended July 31, 2005 was $2,005,682, which was $932,908 or 32% less than our net loss for the fiscal year ended July 31, 2004 which was $2,938,590.

Loss from Changes in Foreign Exchange Rates

During the fiscal year ended July 31, 2005, we recorded equity adjustments from foreign currency translations of approximately $29,000. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar.

Liquidity and Capital Resources; Plan of Operations

As of July 31, 2005, we had working capital of $4,239,991. Our plans over the next 12 months primarily include the cost of engineering, water and construction of the El Chanate open-pit gold mine in Mexico and general administrative costs in New York.

Our planned activities over the next twelve months in Mexico, in order of priority, are as set forth below. The activities and the costs may vary materially, especially if there are significant increase in costs related to such items as fuel, construction materials and labor. The following costs are derived from the 2005 Study.

Activity	Estimated Cost
Mexico	
Crushing	5,600,000
Heap leaching	2,100,000
Carbon handling & refining	900,000

Power system	650,000
Water system	730,000
Trucks and other mining equipment	460,000
Engineering and planning	1,100,000

Ancillaries (building, shops, lab and road)	1,100,000
Owner's costs	3,200,000
Working capital	1,700,000
General and administrative	350,000
Sub-total	$ 17,890,000
New York and Colorado	
General, administrative and professional expenses	1,380,000
Total	$ 19,270,000

Historically, we have not generated any material revenues from operations and have been in a precarious financial condition. Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have recurring losses from operations. Our primary source of funds used during the fiscal year ended July 31, 2005 was from the sale and issuance of equity securities for net proceeds of approximately $7,338,316. As discussed below, in February 2005, we completed a private placement, netting approximately $6.2 million, and mandated Standard Bank Plc. as the exclusive arranger of a project finance facility of up to US$10 million for our El Chanate gold mining project in Sonora State, Mexico.

February 2005 Private Placement

In the private placement that closed in February 2005 we issued 27,200,004 shares of our Common Stock and warrants to purchase an aggregate of up to 27,200,004 shares of our Common Stock for an aggregate gross purchase price of approximately $6.8 million and we received approximately $6.2 million in net proceeds. The Warrant issued to each purchaser is exercisable for one share of our Common Stock, at an exercise price equal to $0.30 per share. Each Warrant has a term of two years and is fully exercisable from the date of issuance. We issued to the placement agent two year warrants to purchase up to 2,702,000 shares of our Common Stock at an exercise price of $0.25 per share. The purchasers acquired the Common Stock and warrants to purchase Common Stock directly from us in transactions exempt from the registration requirements of the federal and state securities laws. All of the securities were issued and sold solely to accredited investors, as defined in Rule 501 of Regulation D pursuant to the Securities Act.

Pursuant to our agreement with the purchasers we filed a registration statement with the Securities and Exchange Commission and registered the foregoing shares and shares issuable upon the exercise of the foregoing Warrants (collectively, the "registrable shares") for public resale. We also agreed to prepare and file all amendments and supplements necessary to keep the registration statement effective until the earlier of the date on which the selling stockholders may resell all the registrable shares covered by the registration statement without volume restrictions pursuant to Rule 144(k) under the Securities Act or any successor rule of similar effect and the date on which the selling stockholders have sold all the shares covered by the registration statement. If, subject to certain exceptions, sales of all shares registered cannot be made pursuant to the registration statement, we will be required to pay to these selling stockholders in cash or, at our option, in shares their pro rata share of 0.0833% of the aggregate market value of the registrable shares held by these selling stockholders for each month thereafter until sales of the registrable shares can again be made pursuant to the registration statement.

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In addition, we agreed to have our Common Stock listed for trading on the Toronto Stock Exchange. If our Common Stock was not listed for trading on the Toronto Stock Exchange within 180 days after February 8, 2005, we were required to issue to these selling stockholders an additional number of shares of our Common Stock that is equal to 20% of the number of shares acquired by them in the private placement. We did not timely list our shares on the Toronto Stock Exchange and, in July 2005, we issued 5,440,000 shares to the selling stockholders.

Project Finance Facility

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

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

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

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

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

If Standard determines not to provide the funding, we will be required to obtain such funding from another source. In addition, as discussed above, we estimate that we will need between $17.5 and $18.5 million to complete a mine at the El Chanate concessions. Accordingly, the net proceeds from the 2005 private placement and the anticipated funds from Standard Bank will not be adequate to complete construction and commence mining operations. We also anticipate non-mine related operating expenses over the next 12 months of approximately $1.4 million.

To the extent that we need to obtain additional capital to complete the mine, commence operations and cover ongoing general and administrative expenses, management intends to raise such funds through bank financing, the sale of our securities, the sale of a royalty interest in the future production from the Chanate properties and/or joint venturing with one or more strategic partners. We cannot assure that adequate additional funding, if needed, will be available. If we are unable to obtain needed capital from outside sources, we will be forced to reduce or curtail our operations. Please see the risk factor "We lack operating cash flow and rely on external funding sources. If we are unable to continue to obtain needed capital from outside sources until we are able to generate positive cash flow from operations, we will be forced to reduce or curtail our operations" in Part I, Item 1. Description of Business."

Our ability to raise additional funds through the sale of equity securities is hampered by the limited number of remaining shares that are authorized but not issued or reserved for issuance. We have only approximately 2,817,419 shares of Common Stock available for future issuances. We have scheduled a special meeting of our stockholders to be held on November 18, 2005 to approve an amendment to our Articles of Incorporation to increase the number of our authorized shares. If our stockholders do not approve this amendment, we most likely will not be unable to raise additional needed funds through the sale of equity securities. Please see the risk factor "If our stockholders do not approve an amendment to our Articles of Incorporation to increase the number of shares we are authorized to issue, we will be unable to raise additional needed funds through the sale of equity securities and it may make it more difficult to attract independent directors and key employees" in Part I, Item 1.
Description of Business."

Environmental and Permitting Issues

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. In Mexico, although we must continue to comply with laws, rules and regulations concerning mining, environmental, health, zoning and historical preservation issues, we are not aware of any significant environmental concerns or existing reclamation requirements at the El Chanate concessions. We received the required Mexican government permits for construction, mining and processing the El Chanate ores in January 2004. The permits were extended in June 2005. Pursuant to the extensions, once we file a notice that work has commenced, we have one year to prepare the site and construct the mine and seven years to mine and process ores from the site. We received the explosive permit from the government in January 2004. This permit must be renewed annually and currently runs through December 2005.

We own properties in Leadville, Colorado that we have written off. Part of the

Leadville Mining District has been declared a federal Superfund site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, and the Superfund Amendments and Reauthorization Act of 1986. Several mining companies and one individual were declared defendants in a possible lawsuit. We were not named a defendant or Principal Responsible Party. We did respond in full detail to a lengthy questionnaire prepared by the Environmental Protection Agency ("EPA") regarding our proposed procedures and past activities in November 1990. To our knowledge, the EPA has initiated no further comments or questions.

We do include in all our internal revenue and cost projections a certain amount for environmental and reclamation costs on an ongoing basis. This amount is determined at a fixed amount of $0.13 per metric tonne of material to be milled on a continual, ongoing basis to provide primarily for reclaiming tailing disposal sites and other reclamation requirements. At this time, there do not appear to be any environmental costs to be incurred by us beyond those already addressed above. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect our planned operations.

Equipment Disposition

In June 2005, we purchased used crushing equipment for approximately $325,500. We spent about $68,329 disassembling, transporting and inspecting the equipment. However, in late summer 2005, we determined to use new rather than used crushing equipment. As a result, we plan to sell this used equipment and we have commissioned an agent to obtain potential buyers.

Contractual Obligations as of July 31, 2005

Lease Commitments

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

Approximate future minimum payments under this lease are as follows:

Year Ending July 31,	
2006	$ 51,000
2007	51,000
2008	4,200
	$ 106,200

Rent expense under the office lease in New York City was approximately $63,000 and $57,000 for the years ended July 31, 2005 and 2004, respectively.

New Accounting Pronouncements

Financial Accounting Standards Board ("FASB") Statement No. 154 Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3

This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this

Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error.

This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in nondiscretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change.

This Statement also requires that a change in depreciation, amortization, or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate effected by a change in accounting principle.

This Statement carries forward without change the guidance contained in Opinion 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in Opinion 20 requiring justification of a change in accounting principle on the basis of preferability. FASB Statement No. 154 is effective for fiscal years beginning after December 15, 2005.

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

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

This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statements of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans.

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

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

Disclosure About Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

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

Environmental remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. It is reasonably possible that our estimates of reclamation liabilities, if any, could change as a result of changes in regulations, extent of environmental remediation required, means of reclamation or cost estimates. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. There were no environmental remediation costs incurred or accrued at July 31, 2005.

Item 7. Financial Statements.

For the Financial Statements required by Item 7 see the Financial Statements included at the end of this Form 10-KSB.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

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

Item 8A. 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 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. 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 annual report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

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.

Item 8B. Other Information.

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The following table sets forth certain information concerning the directors and executive officers of the Company:

Name	Age	First Became Director	Position
Gifford A. Dieterle	73	9/22/82	President, Treasurer, Chief Financial Officer & Chairman of the Board
Robert Roningen	70	9/14/93	Director, Senior Vice President, Secretary
Jack V. Everett	84	1/25/95	Director, Vice President - Exploration
Roger A. Newell	62	8/28/00	Director, Vice President - Development
Jeffrey W. Pritchard	47	1/27/00	Director, Vice President - Investor Relations
J. Scott Hazlitt	53		Vice President - Mine Development

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

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

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

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

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

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

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

Key Consultant

DAVID LODER has been the General Manager of our El Chanate project since March 2005. Mr. Loder is a registered professional mining engineer with over 30 years experience in the mining industry, spending the last 15 years managing open-pit gold heap leach operations. He has been a General Manager responsible for the overall planning and start-up for open-pit gold mining operations in Sonora, Mexico and elsewhere in Latin America. From 2003 to 2004, he was general manager of the Bellavista mine owned by Glencairn Gold in Costa Rica. From 1995 to 2001, Mr. Loder was general manager of the Santa Gertrudis mine owned by Campbell Resources in Sonora, Mexico. Mr. Loder is a Registered Professional Engineer in the United States and Canada.

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

To our knowledge, based solely on a review of such materials as are required by the Securities and Exchange Commission, no officer, director or beneficial holder of more than ten percent of our issued and outstanding shares of Common Stock failed to timely file with the Securities and Exchange Commission any form or report required to be so filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, except that Mr. Newell filed a Form 4 late on one occasion with regard to a transaction that occurred during fiscal 2005 and Mr. Hazlitt recently filed a Form 5 reporting two transactions that should have been filed on Form 4. The Form 5 also reports information that would have been contained in a Form 3. Mr. Hazlitt did not make any filings under Section 16(a) prior to the filing of the Form 5 because there was a question of fact as to whether Mr. Hazlitt is required to make filings under Section 16(a).

Audit Committee Financial Expert

We do not have a financial expert. We believe that the cost of retaining a financial expert at this time is too prohibitive given our current financial condition and lack of operating revenues.

Code of Ethics

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

Item 10. Executive Compensation

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

SUMMARY COMPENSATION TABLE

					Long-Term Compensation			
	Annual Compensation				Awards		Payouts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Name and Principal Position	Year	Salary	Bonus ($)	Other Annual Compen- sation($)	Restrict- ed Stock Award ($)	Options SARs	LTIP Payouts ($)	C
Gifford A. Dieterle	2005	123,000	-0-	-0-	-0-	-0-	-0-	
Chief Executive	2004	104,000	20,000	-0-	-0-	250,000	-0-	
Officer	2003	70,856	23,400	-0-	-0-	-0-	-0-	

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

OPTION/SAR GRANTS IN LAST FISCAL YEAR
Individual Grants

(a) Name	(b) Options/ SARs Granted	(c) Percent of Total Options/SARs Granted to Employee in Fiscal Year	(d) Exercise or Base Price ($/SH)	(e) Expiration Date
Gifford A. Dieterle	0	0%	$. 0	N/A
Robert N. Roningen	0	0%	$ .0	N/A
Jack V. Everett	0	0%	$ .0	N/A
Roger A. Newell	0	0%	$ .0	N/A
Jeffrey W. Pritchard	0	0%	$ .0	N/A

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

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

(a) Name	(b) Shares Acquired on Exercise (#)	(c) Value Realized	(d) Number of Unexercised Options/SARs at FY-End(#) Exercisable/ Unexercisable	(e) Value of Unexercised In-the-Money Option/SARs at FY-End(#) Exercisable/ Unexercisable
Gifford A. Dieterle	--	--	1,500,000	$ 75,000
Robert N. Roningen	--	--	750,000	$ 75,000
Jeffrey W. Pritchard	--	--	622,727	$ 75,000
Roger A. Newell	227,227	50,000	750,000	$ 135,000
Scott Hazlitt	400,000	132,000	325,000	$ 97,500

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

For information on compensation arrangements with our executive officers, please see "Part III, Item 12. Certain Relationships and Related Transactions" below.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth as of November 1, 2005, the number and percentage of outstanding shares of Common Stock beneficially owned by:

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

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

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This table is based upon information supplied by Schedules 13D and 13G, if any, filed with the Securities and Exchange Commission, and information obtained from our directors and named executives. For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares of Common Stock which such person has the right to acquire within 60 days of November 1, 2005. For purposes of computing the percentage of outstanding shares of Common Stock held by each person or group of persons named in the table, any security which such person or persons has or have the right to acquire within such date is deemed to be outstanding but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, we believe, based on information supplied by such persons, that the persons named in this table have sole voting and investment power with respect to all shares Common Stock which they beneficially own. Unless otherwise noted, the address of each of the principal stockholders is care of us at 76 Beaver Street, 26th floor, New York, NY10005.

Name and Address of Beneficial Owner	Amount & Nature of Beneficial Ownership	Approximate Percentage(1)(2)
Gifford A. Dieterle*	2,650,000(2)	2.7%
Jack Everett* 534 Observatory Drive Colorado Springs, CO 80904	1,000,000	1.0%
Robert Roningen* 2955 Strand Road Duluth, MN 55804	2,200,000 (2)(3)	2.3%
Jeffrey W. Pritchard*	956,354(2)	1.0%
Roger A Newell* 1781 South Larkspur Drive Golden, CO 80401	1,477,273(2)	1.5%
Scott Hazlitt* 949 F Street Salida. CO 81201	1,025,000(2)	1.1%
RAB Special Situations (Master) Fund Limited 1 Adam Street London, WC2N 6LE, UK	17,600,000(4)	16.9%
SPGP 17, Avenue Matignon 75008 Paris, France	20,370,000(5)	19.3%
Caisse de Depot et Placement du Quebec 1000, place Jean-Paul-Riopelle Montreal, Quebec, H2Z 2B3	5,280,000(6)	5.4%

All Officers and Directors as a Group (6)	9,308,627(2)(3)	9.5%

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* Officer and/or Director of Capital Gold.

(1) Based upon 95,969,214 shares issued and outstanding as of November 1, 2005.

(2) For Messrs. Dieterle, Roningen, Pritchard, Newell and Hazlitt, includes, respectively, 1,500,000 shares, 750,000 shares, 622,727 shares, 750,000 shares and 325,000 shares issuable upon exercise of options and/or warrants.

(3) Includes shares owned by Mr. Roningen's wife and children.

(4) The shares are held of record by Credit Suisse First Boston LLC. Includes shares issuable upon exercise of warrants to purchase an aggregate of 8,000,000 shares. The warrants are not exercisable if, as a result of an exercise, the holder would then become a "ten percent beneficial owner" of our Common Stock, as defined in Rule 16a-2 under the Securities Exchange Act of 1934. The Approximate Percentage column takes into account the shares issuable upon exercise of these warrants. We have been advised that William P. Richards is the Fund Manager for RAB Special Situations (Master) Fund Limited, with dispositive and voting power over the shares held by RAB Special Situations (Master) Fund Limited.

(5) Includes shares issuable upon exercise of warrants to purchase an aggregate of 9,600,000 shares. We have been advised that Guy-Philippe Bertin, Fund Manager, is a natural person with voting and investment control over shares of our Common Stock beneficially owned by SPGP.

(6) The shares are held of record by Fiducie Desjardins. Includes shares issuable upon exercise of warrants to purchase an aggregate of 2,400,000 shares. We have been advised that Francois Perron has dispositive power and Anne Genevieve Beique has voting power over the shares held by Caisse de Depot et Placement du Quebec.

Item 12. Certain Relationships and Related Transactions.

During the fiscal years ended July 31, 2005 and 2004, we paid Roger Newell $68,000 and $62,000, respectively, for professional geologist and management services rendered to us plus expenses. During the fiscal years ended July 31, 2005 and 2004, we paid Scott Hazlitt $96,000 per year, for professional geologist and mine management services rendered to us, plus expenses. During the fiscal years ended July 31, 2005 and 2004, we paid Jack Everett consulting fees of $56,900 and $47,600, respectively. During the fiscal year ended July 31, 2005 and 2004, we paid Robert Roningen legal fees of $6,625 and $6,900, respectively.

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

On May 28, 2005, Roger Newell exercised 227,273 outstanding options at $0.022 per share.

The Company utilizes Caborca Industrial S.A. de C.V., a Mexican corporation 100% owned by Messrs. Dieterle and Pritchard, two of our 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 us for these services at cost. Mining expenses charged by it amounted to approximately $24,000 for the year ended July 31, 2005.

Item 13. Exhibits.

Exhibits

3.a	Certificate of Incorporation of Company(1)
3.b	Amendments to Certificate of Incorporation of Company (1)(5)
3.c	By-Laws of Company (1)
4.2	Form of Warrant for Common Stock of the Company issued in February 2005 private placement.(8)
4.3	Form of Warrant for Common Stock of the Company issued to Standard Bank.(9)
10.a	Mining Claims (1)
10.b	Stock Purchase Option Agreement from AngloGold (2)
10.c	Letter of Intent with International Northair Mines Ltd. (2)
10.d	March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement (Sale by us and Holding of all of the stock of Minera Chanate) (In Spanish).(3)
10.e	English summary of March 30, 2002 Minera Chanate Stock Purchase and Sale and Security Agreement.(3)
10.f	Agreement between Santa Rita and Grupo Minero FG.(4)
10.g	Amendment to Agreement between Santa Rita and Grupo Minero FG.(6)
10.h	Termination Agreement between Santa Rita and Grupo Minero FG.(7)
10.i	English Summary of El Charro agreement(10)
21.1	Subsidiaries of the Company
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

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

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

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

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

(5) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the Commission on or about April 11, 2003, and incorporated herein by this reference.

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

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

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

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

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

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

Item 14. Principal Accountant Fees And Services.

Wolinetz, Lafazan & Company, P.C. ("WL"), Certified Public Accountants, are the Company's independent auditors that examined the financial statements of the Company for the fiscal years ended July 31, 2005 and 2004. WL has performed the following services and has been paid the following fees for these fiscal years.

Audit Fees

WL billed $55,000 and $40,000 for the audit of our financial statements for the fiscal years ended July 31, 2005 and 2004 and their review of the financial statements included in our filing of quarterly reports on form 10-QSB during these fiscal years.

Audit-Related Fees

WL was not paid any additional fees for the fiscal years ended July 31, 2005 or 2004 for assurance and related services reasonably related to the performance of the audit or review of our financial statements.

Tax Fees

WL billed $7,000 for the fiscal years ended July 31, 2005 and 2004 for professional services rendered for tax compliance, tax advice and tax planning.

All Other Fees

WL was paid no other fees for professional services during the fiscal years ended July 31, 2005 and 2004.

Audit Committee Pre-Approval Policies

The Board of Directors, which performs the equivalent functions of an audit committee, currently does not have any pre-approval policies or procedures concerning services performed by WL. All the services performed by WL that are described above were pre-approved by the Board of Directors. Less than 50% of the hours expended on WL's engagement to audit our financial statements for the fiscal years ended July 31, 2005 and 2004 were attributed to work performed by persons other than WL's full-time, permanent employees.

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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

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle, President

Dated: Dated: November 14, 2005

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

SIGNATURES	TITLE	DATE
/s/ Gifford A. Dieterle	President, Treasurer,	November 14, 2005

Gifford A. Dieterle	Principal Financial and Accounting Officer and Chairman of the Board of Directors	
/s/ Jack V. Everett ----------------------------- Jack V. Everett	Director	November 14, 2005
/s/ Robert N. Roningen ----------------------------- Robert N. Roningen	Director	November 14, 2005
/s/ Roger A. Newell ----------------------------- Roger A. Newell	Director	November 14, 2005
/s/ Jeffrey W. Pritchard ----------------------------- Jeffrey W. Pritchard	Director	November 14, 2005

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SUPPLEMENTAL INFORMATION

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

NOT APPLICABLE.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Capital Gold Corporation and Subsidiaries (A Development Stage Enterprise) ("the Company") as of July 31, 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the two years in the period ended July 31, 2005 and for the period September 17, 1982 (Inception) to July 31, 2005. 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Also, 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, 2005 and the consolidated results of their operations and their cash flows for each of the two years in the period ended July 31, 2005 and for the period September 17, 1982 (Inception) to July 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company is a development stage enterprise whose operations have generated recurring losses since its inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are described in Note 17. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
October 25, 2005

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED BALANCE SHEET
July 31, 2005

ASSETS

Current Assets:	
Cash and Cash Equivalents	$ 4,281,548
Loans Receivable - Affiliate	31,419
Prepaid Expenses	18,991
Marketable Securities	150,000
Other Current Assets	40,849
Total Current Assets	4,522,807
Mining Concessions	70,104
Property & Equipment - net	650,941
Intagible Assets - net	17,842

Other Assets:	
Other Investments	21,220
Deferred Financing Costs	100,000
Mining Reclamation Bonds	35,550
Other	43,802
Other Deposits	80,000
Security Deposits	9,605
Total Other Assets	290,177
Total Assets	$ 5,551,871

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts Payable	$ 92,040
Accrued Expenses	190,776
Total Current Liabilities	282,816
Commitments and Contingencies	
Stockholders' Equity:	
Common Stock, Par Value $.001 Per Share; Authorized 150,000,000 shares; Issued and Outstanding 95,969,218 Shares	95,969
Additional Paid-In Capital	31,851,724
Deficit Accumulated in the Development Stage	(26,583,811)
Deferred Financing Costs	(252,541)
Accumulated Other Comprehensive Income	157,714
Total Stockholders' Equity	5,269,055
Total Liabilities and Stockholders' Equity	$ 5,551,871

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

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

	For the Year Ended July 31, 2005	For the Year Ended July 31, 2004	For the Period September 17, 1982 (Inception) To July 31, 2005
Revenues	$ --	$ --	$ --

Costs and Expenses:			
Mine Expenses	851,374	673,050	7,663,908
Write-Down of Mining, Milling and Other Property and Equipment	--	300,000	1,299,445
Selling, General and Administrative Expenses	1,005,038	687,722	9,862,967
Stock Based Compensation	187,844	379,033	9,409,847
Depreciation and Amortization	7,431	--	375,157
Total Costs and Expenses	2,051,687	2,039,805	28,611,324
Loss from Operations	(2,051,687)	(2,039,805)	(28,611,324)
Other Income (Expense):			
Interest Income	42,483	4,074	795,998
Miscellaneous	3,522	--	36,199
Financing Fees	--	--	--
Gain on Sale of Property and Equipment	--	--	46,116
Gain on Sale of Subsidiary	--	--	1,907,903
Option Payment	--	--	70,688
Loss on Write-Off of Investment	--	--	(10,000)
Loss on Joint Venture	--	(800,000)	(901,700)
Loss on Option	--	--	(50,000)
Loss on Other Investments	--	(3,697)	(3,697)
Loss on Write -Off of Minority Interest	--	(150,382)	(150,382)
Total Other Income (Expense)	46,005	(950,005)	1,741,125
Loss Before Minority Interest	(2,005,682)	(2,989,810)	(26,870,199)
Minority Interest	--	51,220	286,388
Net Loss	$ (2,005,682)	$ (2,938,590)	$(26,583,811)
Net Loss Per Common Share - Basic and Diluted	$ (0.03)	$ (0.06)	
Weighted Average Common Shares Outstanding	75,123,922	51,584,715	

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

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CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

Deficit

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated In The Development Stage	Total
Balance September 17, 1982 (Inception)	-0-	$ -0-	$ -0-	$ -0-	$
Initial Cash Officers - At $.001 Per Share	1,575,000	1,575	--	--	1,5
Other Investors - At $.001 Per Share	1,045,000	1,045	--	--	1,0
Initial - Mining Claims - Officer - At $.002 Per Share	875,000	875	759	--	1,6
Common Stock Issued For: Cash At $.50 Per Share	300,000	300	149,700	--	150,0
Net Loss	--	--	--	(8,486)	(8,4
Balance - July 31, 1983	3,795,000	3,795	150,459	(8,486)	145,7
Common Stock Issued For: Cash Pursuant to Initial Offering At $1.50 Per Share, Net of Offering Costs of $408,763	1,754,741	1,755	2,221,594	--	2,223,3
Net Income	--	--	--	48,890	48,8
Balance - July 31, 1984	5,549,741	5,550	2,372,053	40,404	2,418,0
Net Income	--	--	--	18,486	18,4
Balance - July 31, 1985	5,549,741	5,550	2,372,053	58,890	2,436,4
Common Stock Issued For: Mineral Lease At $1.00 Per Share	100	--	100	--	1
Net Income	--	--	--	4,597	4,5
Balance - July 31, 1986	5,549,841	5,550	2,372,153	63,487	2,441,1

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

CAPITAL GOLD CORPORATION

(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

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CAPITAL GOLD CORPORATION

(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional	Deficit Accumulat In The

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional Paid-In Capital	Deficit Accumulat In The Developme Stage
	Shares	Amount		

Compensation portion of Cash Issuances	--	$ --	$ 618,231	$
Compensation Portion of Options	--	--	304,900	
Exercise of Options:				
Cash				
At $0.10 Per Share	510,000	510	50,490	
Services:				
At $0.70 Per Share	100,000	100	69,900	
Net Loss	--	--	--	(1,964,
Balance - July 31, 1999	20,222,615	20,221	9,689,625	(8,279,
Common Stock Issued For:				
Cash:				
At $.18 Per Share	27,778	28	4,972	
At $.20 Per Share	482,500	483	96,017	
At $.21 Per Share	47,500	47	9,953	
At $.22 Per Share	844,821	845	185,012	
At $.30 Per Share	100,000	100	29,900	
At $.35 Per Share	280,000	280	97,720	
At $.37 Per Share	56,000	56	19,944	
At $.38 Per Share	100,000	100	37,900	
At $.40 Per Share	620,000	620	247,380	
At $.42 Per Share	47,715	48	19,952	
At $.45 Per Share	182,445	182	81,918	
At $.50 Per Share	313,000	313	156,187	
At $.55 Per Share	122,778	123	67,377	
At $.58 Per Share	12,069	12	6,988	
Expenses:				
At $.20 Per Share	4,167	4	829	
At $.22 Per Share	46,091	46	10,094	
Compensation Portion	--	--	94,430	

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional Paid-In	Deficit Accumulat In The Developme

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

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional Paid-In Capital	Deficit Accumulated In The Development Stage	Acc Comp Inco
	Shares	Amount			
Compensation Portion:	--	$ --	$ 24,000	$ --	$
Expenses:					
At $.27 Per Share	30,000	30	8,070	--	
Services:					
At $0.20 Per Share	33,850	34	6,736	--	
At $0.23 Per Share	15,000	15	3,435	--	
At $0.11 Per Share	87,272	87	9,513	--	
At $0.34 Per Share	50,000	50	16,950	--	
Compensation Portion:	--	--	21,777	--	
Commission:					
At $0.11 Per Share	266,500	267	(267)	--	
At $0.20 Per Share	26,150	26	(26)	--	
At $0.22 Per Share	15,000	15	(15)	--	
Compensation Portion:	--	--	36,595	--	
Exercise of Options:					
Cash:					
At $0.02 Per Share By Related Party	225,000	225	4,725	--	
At $0.10 Per Share	200,000	200	19,800	--	
Expenses:					
At $0.02 Per Share By Related Party	53,270	53	1,120	--	
Compensation Portion:	--	--	25,463	--	
Commission:					
At $0.02 Per Share	350,000	350	(350)	--	
Compensation Portion:	--	--	132,300	--	
Commission:					
At $0.05 Per Share	1,000,000	1,000	(1,000)	--	
Compensation Portion:	--	--	400,000	--	
Stock Based Compensation	--	--	7,002,500	--	

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

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

Others	1,205,929	1,206	25,325	--

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

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CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional Paid-In Capital	Deficit Accumulated In The Development Stage	Acc Comp Inco
	Shares	Amount			
Additional Paid-In Capital Arising From Investment In Joint Venture Subsidiary by Minority Interest	--	--	51,934	--	
Stock Based Compensation	--	--	222,338	--	
Comprehensive Loss:					
Net Loss	--	--	--	(492,148)	
Equity Adjustment from Foreign Currency Translation	--	--	--	--	
Total Comprehensive Loss	--	--	--	--	
Balance - July 31, 2002	40,637,865	40,638	21,309,005	(19,720,278)	
Common Stock Issued for:					
Cash:					
At $.022 Per Share	250,000	250	5,250	--	
At $.10 Per Share	50,000	50	4,950	--	
At $.12 Per Share	1,250,000	1,250	148,750	--	
At $.14 Per Share	235,714	236	32,764	--	
At $.15 Per Share	1,016,865	1,017	151,513	--	
Exercise of Options:					
Cash:					
At $.022 Per Share by Related Party	922,727	923	19,377	--	
At $.05 Per Share by Related Party	200,000	200	9,800	--	
At $.05 Per Share by Others	100,000	100	4,900	--	

Services:					
At $4.00 Per Share	14,363	13	57,378	--	
Additional Paid-In Capital Arising from Investment In Joint Venture Subsidiary By Minority Interest	--	--	159,919	--	
Stock Based Compensation	--	--	288,623	--	
Comprehensive Loss:					
Net Loss	--	--	--	(1,919,261)	
Equity Adjustment from Foreign Currency Translation	--	--	--	--	
Total Comprehensive Loss	--	--	--	--	
Balance - July 31, 2003	44,677,534	44,677	22,192,229	(21,639,539)	

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock		Additional Paid-In Capital	Deficit Accumulated In The Development Stage	Acc Comp Inco
	Shares	Amount			
Common Stock Issued for:					
Cash:					
At $.05 Per Share	150,000	150	7,350	--	
At $.11 Per Share	245,455	245	26,755	--	
At $.12 Per Share	5,929,565	5,929	705,318	--	
At $.13 Per Share	349,691	350	45,110	--	
At $.14 Per Share	346,284	346	48,133	--	
At $.15 Per Share	368,665	369	54,931	--	
At $.16 Per Share	593,750	594	94,406	--	
At $.17 Per Share	145,000	145	24,505	--	
At $.18 Per Share	55,554	56	9,944	--	
At $.20 Per Share	365,000	365	72,635	--	
At $.23 Per Share	45,439	45	10,405	--	

At $.24 Per Share	74,166	74	17,726	--	
At $.25 Per Share	80,000	80	19,920	--	
Exercise of Options:					
Cash:					
At $.02 Per Share by Related Party	250,000	250	5,250	--	
At $.05 Per Share by Related Party	1,415,000	1,415	69,338	--	
At $.12 Per Share by Related Party	97,826	98	11,152	--	
At $.02 Per Share by Related Party	272,727	273	5,327	--	
At $.05 Per Share by Related Party	300,000	300	14,700	--	
Services:					
At $.12 Per Share	7,500	8	892	--	
Additional Paid-In Capital Arising from Investment In Joint Venture Subsidiary By Minority Interest	--	--	100,156	--	
Stock Based Compensation:					
Related Parties	--	--	314,000	--	
Other	--	--	65,033	--	
Common Stock Issued In Connection with Termination of Joint Venture	2,000,000	2,000	798,000	--	
Comprehensive Loss:					
Net Loss	--	--	--	(2,938,590)	
Equity Adjustment from Foreign Currency Translation	--	--	--	--	
Unrealized Gain on Marketable Securities	--	--	--	--	
Total Comprehensive Loss	--	--	--	--	
Balance - July 31, 2004	57,769,156	$ 57,769	$ 24,713,215	$(24,578,129)	$

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY - (Continued)
FOR THE PERIOD SEPTEMBER 17, 1982 (INCEPTION) TO JULY 31, 2005

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deficit Accumulated In The Development Stage	Accumu Ot Compre Income
Common Stock Issued for:					
Cash:					
At $.10 Per Share	175,000	175	17,325	--	
At $.11 Per Share	381,763	382	41,612	--	
At $.12 Per Share	2,378,493	2,379	283,042	--	
At $.13 Per Share	582,307	582	75,118	--	
At $.14 Per Share	35,714	36	4,964	--	
At $.15 Per Share	101,333	101	15,099	--	
At $.20 Per Share	25,000	25	4,975	--	
At $.25 Per Share	27,200,004	27,200	6,772,801	--	
Shares issued for Cash Through Private Placement Private Placement costs			(637,991)		
Services:					
At $.11 Per Share	188,173	188	20,511	--	
At $.12 Per Share	71,334	71	8,489	--	
Exercise of Options:					
Cash:					
At $.022 Per Share by Related Party	227,273	227	4,773	--	
At $.05 Per Share by Related Party	400,000	400	19,600	--	
At $.05 Per Share by Other	250,000	250	12,250	--	
At $.22 Per Share by Other	250,000	250	54,750	--	
Services					
At $.12 Per Share by Other	300,000	300	35,700	--	
Commissions:					
At $.12 Per Share	193,666	194	(194)	--	
Non Registration Penalty:					
At $.19 Per Share	5,440,000	5,440	(5,440)	--	
Stock Based Compensation			158,584		
Deferred Financing Costs	--	--	252,541	--	
Net Loss	--	--	--	(2,005,682)	
Equity Adjustment from Foreign Currency Translation	--	--	--	--	
Unrealized Gain on Marketable Securities	--	--	--	--	

Total Comprehensive Loss					
Balance - July 31, 2005	95,969,216	$ 95,969	$ 31,851,724	$(26,583,811)	$ 1

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

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

	For The Year Ended July 31, 2005	For The Year Ended July 31, 2004	F Sep J
Cash Flow From Operating Activities:			
Net Loss	$ (2,005,682)	$ (2,938,590)	
Adjustments to Reconcile Net Loss to Net Cash (Used) By Operating Activities:			
Depreciation and Amortization	7,431	--	
Gain on Sale of Subsidiary			
Minority Interest in Net Loss of Subsidiary	--	(51,220)	
Write-Down of Impaired Mining, Milling and Other Property and Equipment	--	300,000	
Gain on Sale of Property and Equipment			
Loss on Write-Off of Investment			
Loss on Joint Venture	--	800,000	
Loss on Write-Off of Minority Interest	--	150,382	
Value of Common Stock Issued for Services	29,260	900	
Stock Based Compensation	158,584	379,033	
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Prepaid Expenses	(54,299)	1,533	
(Increase) Decrease in Other Current Assets	(10,601)	(15,270)	
(Increase) in Other Deposits	(80,000)	--	
(Increase) in Security Deposits	(1,170)	--	
Increase (Decrease) in Accounts Payable	39,953	(43,941)	
Increase (Decrease) in Accrued Expenses	74,703	(6,199)	
Net Cash (Used) By Operating Activities	(1,841,821)	(1,423,372)	
Cash Flow From Investing Activities:			
(Increase) in Other Investments	(11,330)	2,992	
Purchase of Mining, Milling and Other Property and Equipment	(657,683)	--	
Purchase of Mining Concession	(25,324)	--	

Investment in Intangibles	(18,531)	--
Proceeds on Sale of Mining, Milling and Other Property and Equipment	--	--
Proceeds From Sale of Subsidiary	--	--
Expenses of Sale of Subsidiary	--	--
Advance Payments - Joint Venture	--	--
Investment in Joint Venture	--	--
Investment in Privately Held Company	--	--
Net Assets of Business Acquired (Net of Cash)	--	--
Investment in Marketable Securities	--	--
Net Cash Provided By (Used) In Investing Activities	(712,868)	2,992

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

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

(Continued)

	For The Year Ended July 31, 2005	2004	F Sep J
Cash Flow From Financing Activities:			
Advances to Affiliate	(3,571)	(7,668)	
(Increase) Decrease in Loans Receivable - Others	2,065	16,300	
Prodeeds of Borrowings - Officers			
Repayment of Loans Payable - Officers			
Prodeeds of Note Payable			
Payments of Note Payable			
Proceeds From Issuance of Common Stock	6,700,325	1,253,988	
Commissions on Sale of Common Stock			
Finance costs associated with Issuance of Common Stock	(100,000)		
Expenses of Initial Public Offering			
Capital Contributions - Joint Venture Subsidiary		100,156	
Purchase of Certificate of Deposit - Restricted			
(Purchase) of Mining Reclamation Bonds			
Net Cash Provided By Financing Activities	6,598,819	1,362,776	
Effect of Exchange Rate Changes	28,975	19,637	
Increase (Decrease) In Cash and Cash Equivalents	4,073,105	(37,967)	

Cash and Cash Equivalents - Beginning	208,443	246,410
Cash and Cash Equivalents - Ending	$ 4,281,548	$ 208,443
Supplemental Cash Flow Information:		
Cash Paid For Interest	$ --	$ --
Cash Paid For Income Taxes	$ --	$ 4,095
Non-Cash Financing Activities:		
Issuances of Common Stock as Commissions on Sales of Common Stock	$ 23,240	$ --
Issuance of Common Stock as Payment for Mining, Milling and Other Property and Equipment	$ --	$ --
Exercise of Options as Payment of Accounts Payable	$ 36,000	$ --

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2005

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. The Company owns rights to property located in the California Mining District, Lake County, Colorado and in the State of Sonora, Mexico and is engaged in the exploration for gold and other minerals from it's properties. Substantially all of the Company's mining activities are now being performed in Mexico. The Company is a development stage enterprise.

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

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

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

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company is a development stage enterprise and since its inception has had no mining revenues and has incurred recurring losses aggregating $26,583,811. These factors raise substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 17, the Company is in the process of raising additional capital and financing. Continuation of the Company is dependent on (1) consummation of financings, (2) achieving sufficiently profitable operations (3) subsequently maintaining adequate financing

NOTE 1 - Basis of Presentation - (Continued)

arrangements and (4) its exiting the development stage. The achievement and/or success of the Company's planned measures, however, cannot be determined at this time. These financial statements do not reflect any adjustments relating to the recoverability and classification of assets carrying amounts and classification of liabilities should the Company be unable to continue as a going concern.

NOTE 2 - Summary of Significant Accounting Policies

Principals of Consolidation

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

Cash and Cash Equivalents

The Company considers 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 funds and short term U.S. treasury bonds.

Marketable Securities

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

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

Mining, Milling and Other Property and Equipment

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

NOTE 2 - Summary of Significant Accounting Policies (Continued)

has been impaired, a provision is made for any expected loss on the project or property.

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

Other Intangible Assets

Purchased intangible assets consisting of rights of way and easements are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assests, generally five years. It is the Company's policy to asses 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, 2005.

Impairment of Long-Lived Assets

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

Fair Value of Financial Instruments

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

Revenue Recognition

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

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes

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

Stock-Based Compensation

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

Reclassifications

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

Net Loss Per Common Share

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

NOTE 2 - Summary of Significant Accounting Policies (Continued)

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

Concentrations of Credit Risk

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

Use of Estimates

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

Environmental Remediation Costs

Environmental remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. It is reasonably possible that the Company's estimates of reclamation liabilities, if any, could change as a result of changes in regulations, extent of environmental remediation required, means of reclamation or cost estimates. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. There were no environmental remediation costs accrued at July 31, 2005.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". SFAS 123 (R)addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments. SFAS 123 (R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised statement generally requires that an entity account for those transactions using the fair-value-based method and eliminates the intrinsic value method of accounting in APB 25, which was permitted under SFAS No. 123, as originally issued.

The revised statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements.

NOTE 2 - Summary of Significant Accounting Policies (Continued)

SFAS No. 123 (R) is effective for small business issuer's financial statements for the first interim or annual reporting period after December 15, 2005, with early adoption encouraged.

The Company is currently evaluating the impact that this statement will have on its financial condition or results of operations.

Emerging Issue Task Force (EITF) Issue 04-08, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share". The EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock, and other such securities should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The consensus is effective for reporting periods after December 15, 2004.

The adoption of this pronouncement did not have a material effect on the Company's financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). This statement replaces APB opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements" and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transaction provision. When a pronouncement includes specific transaction provisions, those provisions should be followed. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Consequently, the Company will adopt the provisions of SFAS No. 154 for its fiscal year beginning July 1, 2006. Management currently believes that adoption of the provisions of SFAS No. 154 will not have a material impact on the Company's consolidated financial statements.

In January 2003, the Financial Accounting Standards Board (FASB) issued interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities" (VIEs), which is an interpretation of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements". FIN 46, as revised by FIN 46R in December 2003, addresses the application of ARB No. 51 to VIEs, and generally would require assets, liabilities and results of activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. FIN 46R shall be applied to all VIEs by the end of the first reporting period ending after December 15, 2004. The Company has determined that FIN 46R has no material impact on its financial statements.

NOTE 3 - Marketable Securities

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

Marketable equity securities, at cost	$ 50,000
Marketable equity securities, at fair value (See Notes 10 & 13)	$150,000

NOTE 4 - Property and Equipment

Property and Equipment consist of the following at July 31, 2005:

Equipment Held for Resale	$ 393,829
Equipment	73,845
Water Well	141,244
Vehicle	34,656
Office Equipment	12,266

Furniture	1,843
Total	657,683
Less: accumulated depreciation	(6,742)
Fixed assets, net	$ 650,941

Depeciation expense for the year ending July 31, 2005 was $6,742 as compared to $0 for the same period last year. The increase was due to the acquisition of assets related to the Mexico operations.

NOTE 5 - Intangible Assets

Investment in Right of way	$ 18,531
Less: accumulated amortization	(689)
Intangible assets, net	$ 17,842

Amortization expense for the year ending July 31, 2005 was $689 as compared to $0 for the same period last year. The increase was due to the investment in a right of way.

NOTE 6 - Joint Venture

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

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

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

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

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

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

NOTE 7 - Sale of Subsidiary Stock

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

During March 2002, prior to the sale of Minera Chanate and pursuant to the FG joint venture agreement (see Note 6), Minera Chanate, in a series of transactions, sold all of its surface land and mining claims to Oro de Altar S. de R.L. de C.V. ("Ora"), another of our wholly-owned subsidiaries. Ora, in turn, leased the foregoing land and mining claims to MSR.

NOTE 8 - 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 9 - Mining Concessions

Mining concessions consists of the following:

El Charro	$ 25,324

El Chanate	$ 44,780
Total	$ 70,104

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

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

NOTE 10 - Loans Receivable - Affiliate

Loans receivable - affiliate consist of expense reimbursements from a publicly-owned corporation in which the Company has an investment. In addition, the Company's president and chairman of the board of directors is an officer and director of that corporation. These loans are non-interest bearing and due on demand (see Note 3 & 13).

NOTE 11 - Other Investments

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

NOTE 12 - Other Comprehensive Income (Loss) - Supplemental Non-Cash Investing Activities

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

Balance - July 31, 2003	53,633
Equity Adjustments from Foreign Currency Translation	(24,894)
Unrealized Gains on Marketable Securities	60,000
Balance - July 31, 2004	$ 88,739
Equity Adjustments from Foreign Currency Translation	28,975
Unrealized Gains on Marketable Securities	40,000
Balance - July 31, 2005	$ 157,714

NOTE 13 - Related Party Transactions

In August 2002 the Company purchased marketable equity securities of a related company. The Company recorded approximately $9,300 and $12,300 in expense reimbursements including office rent from this entity for the years ended July 31, 2005 and 2004, respectively (see Notes 3 and 10). The Company utilizes a Mexican Corporation 100% owned by two officers/Directors and stockholders of the Company for mining support services. These services include but are not limited to the payment of mining salaries and related costs. The Mexican Corporation bills the Company for these services at cost. Mining expenses charged by the Mexican Corporation and reported on the statement of operations amounted to approximately $24,000 for the year ended July 31, 2005.

NOTE 14 - Stockholders' Equity

Common Stock

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

During the year ended July 31, 2005, the Company issued 3,679,610 shares for gross proceeds of $445,815. During the year ended July 31, 2005 the Company issued 259,507 shares of common stock for services

NOTE 14 - Stockholders' Equity (Continued)

rendered valued at $29,260. During the year ended July 31, 2005 the Company issued 193,666 shares of common stock valued at $23,240 as commissions on the sale of common stock. During the year ended July 31, 2005 the Company granted options to purchase 550,000 shares of common stock. The Company recognized approximately $159,000 of stock based compensation relating to the options granted.

Pursuant to a private placement that closed in February 2005 we issued 27,200,004 shares of our common stock and warrants to purchase an aggregate of up to 27,200,004 shares of our common stock for an aggregate gross purchase price of approximately $6.8 million and we received approximately $6.2 million in net proceeds. The Warrant issued to each purchaser is exercisable for one share of our common stock, at an exercise price equal to $.30 per share. Each Warrant has a term of two years and is fully exercisable from the date of issuance. We issued to the placement agent two year warrants to purchase up to 2,702,000 shares of our common stock at an exercise price of $.25 per share. Such placement agent warrants are valued at approximately $414,000 using the Black-Scholes option pricing method.

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

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

If our common stock was not listed for trading on the Toronto Stock Exchange or the TSX Venture Exchange or the registration statement was not declared effective by the SEC within 180 days after February 8, 2005, then we would be required to issue to these selling stockholders an additional number of shares of our common stock that is equal to 20% of the number of shares acquired by them in the private placement. In addition, if the registration statement is not declared effective by the SEC within 180 days after February 8, 2005 or, after the registration statement is declared effective by the SEC, subject to certain exceptions, sales of all shares so registered cannot be made pursuant to the registration statement, then we will be required to pay to these selling stockholders in cash or, at our option in shares, their pro rata share of 0.0833% of the aggregate market value of the registrable shares held by these selling stockholders for each month thereafter until the registration statement is declared effective or sales of the registrable shares can again be made pursuant to the registration statement, as the case may be. As of August 8, 2005 our listing on the Toronto Stock Exchange was not complete. Therefore, on August 11, 2005 we issued approximately 5,440,000

NOTE 14 - Stockholders' Equity (Continued)

shares of our common stock, which represented 20% of the number of shares acquired in the private placement.

During the year ended 7/31/05, the Company issued 500,000 shares of common stock upon the exercise of options for gross proceeds of $67,500.In addition 627,273 shares of common stock were issued upon exercise of options by related parties for gross proceeds of $25,000. We also issued 300,000 shares of common stock upon exercise of options for payment of accounts payable of $36,000.

Stock Options

A summary of stock option activity for the years ended July 31, 2005 and 2004 are as follows:

	Options Outstanding		
	Number of Shares	Price Range Per Share	Weighted Average Exercise Price
Outstanding - July 31, 2003	10,096,916	.022-.50	.11
Options Granted:			
Related Parties	1,500,000	.21	.21
Others	300,000	.12-.21	.15
Exercised:			
Related Parties	(572,727)	.022-.05	.04

Others	(1,762,826)	.022-.12	.05
Expired	(2,672,727)	.022-.05	.03
Outstanding - July 31, 2004	6,888,636	$.022-.50	$ .11
Options Granted:			
Related Parties	550,000	.05-.12	.09
Others	30,902,004	.25-.30	.29
Exercised:			
Related Parties	(627,273)	.022-.05	.037
Others	(800,000)	.05-.22	.129
Expired	(300,000)	.22-.25	.23
Outstanding - July 31, 2005	36,613,367	$.022-.50	$ .30

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NOTE 14 - Stockholders' Equity (Continued)

Options to purchase 36,613,367 shares of common stock were exercisable at July 31, 2005 at a weighted average exercise price of $.30 with a weighted average contractual life of 1.23 years as follows:

Options Outstanding and Exercisable by Price Range as of July 31, 2005 is as follows:

	Options Outstanding			Options Exercisabl	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weight Avera Exercise
$ .022	90,909	.51	$.022	90,909	$ .0
.05	550,000	.51	.05	550,000	.
.24	100,000	0.92	.24	100,000	.
.21	1,250,000	1.83	.21	1,250,000	.
.05	500,000	.51	.05	500,000	.
.25	2,702,000	1.50	.25	2,702,000	.
.30	27,200,004	1.50	.30	27,200,004	.
.22	500,000	.51	.22	500,000	.
.32	1,000,000	1.50	.32	1,000,000	.
.41	100,000	0.92	.41	100,000	.
.50	3,120,454	1.50	.50	3,120,454	.
$.022-.50	36,613,367	1.23	$ .30	36,613,367	$.

The Company recognized approximately $158,584 and $348,000 of stock-based compensation expense during the years ended July 31, 2005 and 2004 respectively, relating to options granted.

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

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

Had compensation cost for stock options granted been determined based on the fair value at the grant date consistent with the provisions of SFAS 123, the Company's net loss and net loss per share for the year ended July 31, 2005 would not change, since there was no issuances of employees stock options during the year.

NOTE 14 - Stockholders' Equity (Continued)

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

Authorized Common Stock

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

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

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

NOTE 15 - Income Taxes

For income tax purposes, the Company has available net operating loss carryforwards ("NOL") at July 31, 2005 of approximately $13,711,000 to reduce future federal taxable income, if any The NOL's expire at various dates through 2025. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

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

	Year Ended July 31, 2005	Year Ended July 31, 2004
Computed "expected" tax benefit	$4,661,620	$4,107,880
Decrease in tax benefit resulting from net operating loss for which no benefit is currently available	4,661,620	4,107,880
	$ --	$ --

The Company has deferred tax assets of approximately $4,661,620 at July 31, 2005 resulting primarily from net operating loss carryforwards. The Deferred tax assets have been fully offset by a valuation allowance resulting from the uncertainty surrounding their future realization. The difference between the federal statutory rate of 34% and the Company's effective tax rate of 0% is due to an increase in the valuation allowance of $553,740 and $754,363 in 2005 and 2004, respectively.

NOTE 16 - Loss on Option

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

NOTE 17 - Liquidity and Going Concern Uncertainty

The Company is a development stage enterprise with no mining revenues and has incurred recurring losses amounting to $26,583,811 through July 31, 2005. The Company incurred net losses of $2,005,682 and $2,938,590 during the years ended July 31, 2005 and 2004, respectively. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern(see Note 1).

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

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

During the year ended July 31, 2005, the Company has successfully obtained external financing through sales of its stock and exercise of options as well as capital contributions.

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

- Continue to raise capital through the sale or exercise of equity securities.
- Bank financing (see "Note 19 - Project Finance Facility" below.
- Obtain outside financing to fund operations.
- Strategic Partner Joint Venturing.
- Other means.

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

NOTE 18 - Commitments and Contingencies

Minera Chanate Option

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

Lease Commitments

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

Approximate future minimum payments under this lease are as follows:

Year Ending July 31,

2006	51,000
2007	51,000
2008	4,200

$106,200
========

Rent expense under the office lease in New York City was approximately $63,000 and $57,000 for the years ended July 31, 2005 and 2004, respectively.

Land Easement

On May 25, 2005 Minera Santa Rita S. de R.L. de C.V entered into an agreement for an irrevocable access easement and an irrevocable fluids (electricity, gas, water and others) easement.

Term of the agreement is 5 years, extendable for 1-year additional terms, upon MSR's request. Terms suspendible by force majeure or Acts of God; and extendable for duration of suspension.

In consideration, $18,000 paid upon the signing of the agreement and yearly advance payments equal to 2 annualized general minimum wages (365 X 2 general minimum wages) in force in Altar, Sonora, Mexico. Said yearly payments 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 said works and activities are permanently stopped.

NOTE 18 - Commitments and Contingencies (Continued)

El Charro

In May 2005, we acquired rights to the El Charro concession for approximately $25,000 and a royalty of 1.5% of net smelter return. We acquired the El Charro concession because it is surrounded entirely by our other concessions.

Lack of Insurance

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

Purchase of House

On July 5, 2005, Oro de Altar purchased a house located in Caborca, Sonora for the sum of $116,000 US Dollars. The Company has made payments of $80,000 with additional installments of $6,000 each for the remaining balance payable on the first of each month beginning August 1, 2005 and ending January 3, 2006. Title to the property does not transfer until full payments have been made. Therefore the initial payments have been classified as Other Deposits on the balance sheet.

NOTE 19 - Project Finance Facility

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

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

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

NOTE 19 - Project Finance Facility (Continued)

the Company's balance sheet. Such costs will be amortized to operations over the life of the debt and in the event the transaction with Standard Bank is not consummated, such costs will be charged to operations immediately. If Standard Bank determines to proceed with the funding, we will be required to pay certain additional fees of $300,000 and issue to Standard Bank an additional 14,600,000 common stock purchase warrants.

Per our arrangement with Standard Bank, the shares issuable upon exercise of the 1,000,000 common stock purchase warrants have been included in the registration statement (discussed above in "February 2005 Private Placement") filed with the Securities and Exchange Commission covering their public resale. We also will be required to so register the shares issuable upon exercise of the additional 14,600,000 warrants if and when these warrants are issued. The warrants may be exercised at a price equivalent to the lower of a) $.32 per share and b) the Company's common share price at the closing date, but in no case less than $.30 per share.

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

NOTE 20 - Subsequent Events

On September 22, 2005, the Board of Directors, subject to stockholder approval, recommended an amendment to the Company's Certificate of Incorporation to increase the Company's authorized shares of capital stock from 150,000,000 to 200,000,000 shares. In addition, the Board of Directors, subject to stockholder approval, recommended that the Company reincorporate in the State of Delaware. Stockholders will vote on these proposals at a special meeting of stockholders to be held on November 18, 2005.