TRAUSCHT DONALD C
Form 4
January 03, 2006

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
TRAUSCHT DONALD C

(Last) (First) (Middle)

C/O ESCO TECHNOLOGIES INC., 9900 A CLAYTON ROAD

(Street)

ST LOUIS, MO 63124

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ESCO TECHNOLOGIES INC [ESE]

3. Date of Earliest Transaction (Month/Day/Year)
01/01/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	01/01/2006		A		800	A	$ 0	11,400	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TRAUSCHT DONALD C C/O ESCO TECHNOLOGIES INC. 9900 A CLAYTON ROAD ST LOUIS, MO 63124	X			

Signatures

T. B. Martin, Attorney-In-Fact	01/03/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. s and circumstances, requires the use of significant judgment and, in some cases, observable inputs may require significant adjustment based on unobservable data. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when determining fair value of an asset in an inactive market. The guidance was effective upon issuance. The adoption of guidance did not have a significant impact on Nayarit

Fair Value Option

In February 2007, the ASC issued guidance that permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The guidance was adopted October 1, 2008. Nayarit did not elect the Fair Value Option for any of its financial assets or liabilities, and therefore, the adoption of the guidance had no impact on Nayarit's consolidated financial position, results of operations or cash flows.

Accounting for the Useful Life of Intangibles

In April 2008, the ASC updated guidance on the determination of the useful life of intangible assets which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The guidance is effective for Nayarit's fiscal year beginning October 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. Nayarit does not expect the adoption of the guidance to have a material impact on Nayarit's consolidated financial position, results of operations or cash flows.

Business Combinations

In December 2007, the ASC guidance for business combinations was updated to provide new guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. The updated guidance also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The provisions of the updated guidance is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after October 1, 2009. Nayarit will apply the guidance to all future business combinations.

154

Equity Method Investment

In November 2008, the ASC updated guidance which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The intent of the changes is to provide guidance on (i) determining the initial measurement of an equity method investment, (ii) recognizing other-than-temporary impairments of an equity method investment and (iii) accounting for an equity method investee's issuance of shares. The updated guidance will be effective for Nayarit's fiscal year beginning October 1, 2009 and is not expected to have an impact on Nayarit's consolidated financial position or results of operations.

Variable Interest Entities

In June 2009, the ASC guidance for consolidation accounting was updated to require an entity to perform a qualitative analysis to determine whether the enterprise's variable interest gives it a controlling financial interest in a variable interest entity ("VIE"). This analysis identifies a primary beneficiary of a VIE as the entity that has both of the following characteristics: i) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and ii) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE. The updated guidance also requires ongoing reassessments of the primary beneficiary of a VIE. The provisions of the updated guidance are effective for Nayarit's fiscal year beginning October 1, 2010. Nayarit does not expect the adoption of this guidance to have an impact on consolidated financial position, results of operations or cash flows.

Management's Responsibility for Financial Statements

The information provided in this proxy statement/prospectus, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that Nayarit's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Risks and Uncertainties

Nayarit does not have any policies for controlling risks associated with its financial instruments.

The principal activity of Nayarit is mineral exploration, which is inherently risky. Exploration is also capital intensive and Nayarit currently has no source of income other than the sale of gold from small scale mine pre-production. Only the skills of its management and staff in mineral exploration and exploration financing serve to mitigate these risks and therefore are one of the main assets of Nayarit. See "Risk Factors."

Outstanding Shares

Nayarit has an authorized share capital of an unlimited number of Nayarit Shares, of which 90,259,548 Nayarit Gold Shares are issued and outstanding as fully paid and non-assessable as of February 11, 2010. See "Information About Nayarit – Capitalization".

Description of Securities

Share Capital

Nayarit stockholders are entitled to receive notice of any meetings of stockholders of Nayarit, and to attend and to cast one vote per Nayarit Share at all such meetings. Nayarit Stockholders do not have cumulative voting rights with respect to the election of directors and, accordingly, a majority of the Nayarit Stockholders entitled to vote in any election of directors may elect all directors standing for election. Nayarit Stockholders are entitled to receive on a pro rata basis such dividends, if any, as and when declared by Nayarit's board of directors at its discretion from funds legally available therefor, and upon the liquidation, dissolution or winding up of Nayarit are entitled to receive on a pro rata basis the net assets of Nayarit after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Nayarit Shares with respect to dividends or liquidation. The Nayarit Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

155

Capitalization

The following table sets forth the capitalization of Nayarit derived from the unaudited financial statements of Nayarit for the three months ended December 31, 2009 and as at September 30, 2009 (audited).

Designation of Security	Amount Authorized or to be Authorized	Amount Outstanding as at December 31, 2009	Amount Outstanding as at September 30, 2009
Nayarit Gold Shares	Unlimited	90,259,548	89,509,548
Nayarit Gold Warrants	Unlimited	33,564,800	33,564,800
Nayarit Gold Stock Options	11,300,000	9,089,286	9,089,286
Nayarit Gold Financing Compensation Options	Unlimited	2,474,000	2,474,000
Debt	Unlimited	$ 0	$ 0

Fully Diluted Share Capital

The following table states the diluted share capital of Nayarit before giving effect to the Business Combination:

Description	Number of Issued and Outstanding as of March 29, 2010
Nayarit Gold Shares issued and outstanding	91,459,665
Nayarit Gold Shares reserved for issuance pursuant to Nayarit Gold Warrants(1)	36,011,500
Nayarit Gold Shares reserved for issuance pursuant to Nayarit Gold Stock Options(2)	7,769,286
Fully Diluted Nayarit Gold Shares	135,240,451

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(1) See “Information About Nayarit – Prior Sales.”

(2) See “Information About Nayarit - Executive Compensation – Stock Option Grants.”

Options to Subscribe for Securities

The following table sets out details of outstanding Nayarit Stock Options as of December 31, 2009 all of which are held by executive officers, directors and consultants and all of which were granted pursuant to the Stock Option Plan (see “Information About Nayarit - Executive Compensation – Stock Option Grants.”):

156

Holder	Number of Nayarit Gold Shares Under Option (1) (3)	Date of Grant	Expiry Date	Exercise Price (CAD)	Market Value of Nayarit Gold Shares on Date of Grant (2) (CAD)
All (3) executive officers and past executive officers of Nayarit as a group	(1) 2,010,000	May 17, 2007 to August 29, 2008	May 17, 2012 to August 29, 2013	$ 0.50 - $0.98	$ 0.48 - $1.00
All (5) directors and past directors of Nayarit who are not also executive officers as a group	(1) 1,550,000	May 18, 2005 to February 10, 2009	May 18, 2010 to February 10, 2014	$ 0.35 - $1.30	$ 0.35 - $1.33
All (3) employees and past employees of Nayarit as a group	(1) 465,000	September 7, 2007 to April 25, 2008	September 7, 2012 to April 25, 2013	$ 0.44 - $0.60	$ 0.44 - $0.60
All (16) consultants and past consultants of Nayarit as a group	(1) 5,064,286	May 18, 2005 to April 6, 2009	May 18, 2010 to April 6, 2014	$ 0.35 - $1.33	$ 0.35 - $1.43
	9,089,286	May 18, 2005 to April 6, 2009	May 18, 2010 to April 6, 2014	$ 0.35 - $1.33	$ 0.35 - $1.43

(1) Stock options are granted with an exercise price determined by the Board of Directors. Options shall not be granted for a term exceeding five years. Options vest over a period of at least 18 months and must be released in equal stages on a quarterly basis and options issued to Investor Relations Consultants must vest in stages of not less than twelve months with no more than one-quarter of the options vesting in any three month period.

(2) The market value was determined on the basis of closing share price on the date of grant.

(3) Each of these Nayarit Stock Options entitles the holder thereof to purchase one (1) Nayarit Gold Share at any time for a period of five years from the date of grant.

Prior Sales

The following table contains details of the prior sales of securities by Nayarit from the date of its original amalgamation (May 2, 2005) to December 31, 2009:

Date	Number and Type of Securities	Consideration	Price (CAD)	Gross Proceeds /Total Value (CAD)
May 2, 2005	9,500,001 common shares (1)	Cash	$ 0.08	$ 780,001
May 2, 2005	9,479,073common shares (2)	$Nil	$ Nil	$ Nil
May 2, 2005	6,428,567 common shares (3)	Cash	$ 0.35	$ 2,250,000
March 20, 2006		Cash	$ 0.75	$ 3,042,000

	4,056,000 common shares (4)					
January 1, 2006 to March 31, 2006	4,897,002 common shares (5)	Cash	$	0.15	$	743,001
January 1, 2006 to March 31, 2006	133,332 common shares (6)	Cash	$	0.35	$	46,666
April 1, 2006 to June 30, 2006	1,271,431 common shares (5)	Cash	$	0.39	$	491,522
April 1, 2006 to June 30, 2006	50,000 common shares(6)	Cash	$	0.38	$	19,000
October 1, 2006 to December 31, 2006	577,856 common shares (5)	Cash	$	0.27	$	155,036
February 22, 2007	2,811,500 common shares (7)	Cash	$	0.70	$	1,968,050
February 22, 2007	70,000 common shares (8)	Finder’s fee	$	0.70	$	49,000
January 1, 2007 to March 31, 2007	750,000 common shares (5)	Cash	$	0.25	$	187,500

157

Date	Number and Type of Securities	Consideration	Price (CAD)	Gross Proceeds /Total Value (CAD)
January 1, 2007 to March 31, 2007	75,000 common shares(6)	Cash	$ 0.35	$ 26,250
April 1, 2007 to June 30, 2007	2,203,000 common shares (5)	Cash	$ 0.41	$ 927,964
April 1, 2007 to June 30, 2007	775,000 common shares(6)	Cash	$ 0.35	$ 272,750
July 1, 2007 to September 30, 2007	115,000 common shares(6)	Cash	$ 0.38	$ 43,700
January 11, 2008	5,682,500 common shares (9)	Cash	$ 0.40	$ 2,273,000
April 1, 2008 to June 30, 2008	125,000 common shares(6)	Cash	$ 0.35	$ 43,750
July 25, 2008	17,900,000 common shares (10)	Cash	$ 0.56	$ 10,024,000
July 25, 2008	500,000 common shares (11)	Property	$ 0.61	$ 305,000
July 1, 2008 to September 30, 2008	45,000 common shares(5)	Cash	$ 0.60	$ 27,000
July 1, 2008 to September 30, 2008	425,000 common shares(6)	Cash	$ 0.35	$ 148,750
December 16, 2008	750,000 common shares (11)	Property	$ 0.45	$ 337,500
March 24, 2009	20,000,000 common shares (12)	Cash	$ 0.50	$ 10,000,000
January 1, 2009 to March 31, 2009	139,286 common shares(6)	Cash	$ 0.48	$ 67,500
July 15, 2009	750,000 common shares (11)	Property	$ 0.45	$ 337,500
December 9, 2009	750,000 common shares (11)	Property	$ 0.48	$ 360,000

(1) Opening balance of common shares upon amalgamation of Canhorn Chemical Corporation with Nayarit Gold Inc.

(2) Shares issued upon consummation of reverse takeover.

(3) Private placement in conjunction with amalgamation of Canhorn Chemical Corporation with Nayarit Gold Inc. Units consisted of one common share and one-half of one warrant. Each whole common share purchase warrant entitled the holder to acquire one common share for $0.40 until April 30, 2006 and $0.45 until April 30, 2007.

(4) Units consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one common share for $1.25 until March 20, 2007.

(5) Common shares issued upon exercise of warrants.

(6) Common shares issued upon exercise of stock options.

(7) Units consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire one common share for $1.00 until January 29, 2008.

(8) 70,000 common shares were issued as finder's fees in conjunction with the February 22, 2007 private placement valued at $0.70 for a deemed total of $49,000.

(9) Units consisted on one common share and one common share purchase warrant. Each whole warrant entitled the holder to acquire one common share for $0.60 until January 11, 2009 and for $0.70 until January 11, 2010. The term of these warrants was extended by six months; accordingly, the new expiry date is now July 11, 2010.

158

(10) Units consisted on one common share and one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for $0.75 until July 25, 2010.

(11) On July 25, 2008, Nayarit entered into an option agreement with Compania Minera Huajicari, S.A. de D.V. to acquire six additional mining concessions. Consideration included aggregate payments of USD$2,500,000 and the issuance of 3,500,000 common shares of Nayarit Gold Inc., of which 500,000 was due upon closing (issued), 750,000 was due six months from closing (issued), 750,000 was due twelve months from closing (issued), 750,000 are due eighteen months from closing (issued), and 750,000 are due twenty-four months from closing. Compania Minera Hujicari has the option to acquire an additional 500,000 common shares of the Company by foregoing and in lieu of receiving the final cash payment of USD$500,000.

(12) Units consisted on one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share for $0.65 until March 24, 2011.

Escrowed Securities

To the knowledge of Nayarit, there are no securities of Nayarit which are subject to escrow or other pooling arrangements. If the Amalgamation becomes effective, Amalco Shares will be subject to escrow as described in “Part V – Information Concerning the Resulting Issuer – Escrowed Securities”.

Principal Holders of Securities

As of March 29, 2010, to the knowledge of the directors and officers of Nayarit there are no persons who beneficially own, or control or direct, directly or indirectly, Nayarit Shares carrying more than 10% of the voting rights attached to the Nayarit Shares.

Directors and Officers

The following table sets forth the name and municipality of residence of each director and executive officer of Nayarit, as well as such individual's age, position with Nayarit, principal occupation within the five preceding years and period of service as a director (if applicable). Each of the directors of Nayarit will hold office until completion of the Business Combination or the next annual meeting of stockholders and until such director's successor is elected and qualified, or until the director's earlier death, resignation or removal. For information relating to the directors of Capital Gold upon completion of the Business Combination, see “Management of Capital Gold Following the Business Combination.”

Name and Municipality of Residence	Age	Position with Nayarit	Principal Occupation for Five Preceding Years	Director / Officer Since	Number of Nayarit Shares Held (%)
Colin Sutherland Halifax, NS	39	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director of Nayarit since 2007; Chief Financial Officer and director of Gammon Gold Inc. from 2004 to 2007. Chief Financial Officer and director of Mexgold Resources Inc. from 2004 to 2006.	2007	0.1%
Paul F. Saxton (3)	63			2007	0%

Furry Creek, BC		Chairman and Director	Chairman and Director of Nayarit since 2007. Chief Executive Officer and President of Lincoln Gold Corp. since 2007 and Chairman and Chief Operating Officer of Pinnacle Mines Ltd. since 2003.		
Megan Spidle Halifax, NS	33	Chief Financial Officer	Chief Financial Officer of Nayarit since 2008. Senior Manager – Assurance & Advisory of Deloitte & Touche, LLP from 2007 to 2008. Manager – Financial Accounting and Reporting of Duke Energy from 2004 to 2006.	2008	0%

159

Name and Municipality of Residence	Age	Position with Nayarit	Principal Occupation for Five Preceding Years	Director / Officer Since	Number of Nayarit Shares Held (%)
J. Trevor Eyton(1)(2)(3)(4) Caledon, ON	75	Director	Member of the Senate of Canada and a director of Brookfield Asset Management Inc. and Coca-Cola Enterprises Inc. Chairman of Canada's Sports Hall of Fame and a Governor of the Canadian Olympic Foundation and Junior Achievement of Canada. Co-Founder and Co-Chairman of the Canada/Mexico Retreat.	2005	0%
R. Glen MacMullin(1)(2)(4)(5) Ottawa, ON	40	Director	Vice-President, Finance for Minto Commercial Properties Inc. Managing Director of Xavier Sussex, LLC from 2004 to 2007.	2007	0%
Donald F. Flemming(1)(2)(3)(4) Halifax, NS	69	Director	Director and Special Committee member of Mexgold Resources Inc. from 2005 to 2006. President of Don Flemming Insurance since 1980.	2007	0%

(1) Independent Director.
(2) Member of the Corporate Governance & Nominating Committee.
(3) Member of the Compensation Committee.
(4) Member of the Audit Committee.
(5) Chairman of the Audit Committee

The directors and executive officers of Nayarit, as a group, beneficially own, directly and indirectly, and exercise control or direction over, a total of 121,200 Nayarit Shares, representing 0.1% of all issued and outstanding Nayarit Shares as of the date of March 22, 2010.

Profiles of each of the executive officers and directors of Nayarit (including details with regard to their principal occupations for the last five years) are set forth below:

Colin Sutherland, C.A., President, Chief Executive Officer and Director

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

Paul F. Saxton, B.Sc. (Engineering), M.B.A., Chairman and Director

Mr. Saxton is a mining engineer and has been active in the mining industry since 1969. He began his career with Cominco Ltd. and since then has held senior management positions with a number of Canadian mining companies, including Lincoln Gold Corp. (President and Director), Pinnacle Mines Ltd. (Chief Operating Officer and Director), Zazu Metals Corporation (Director), Mascot Gold Mines Ltd. (President), Corona Corporation (Vice-President), Viceroy Resource Corporation (Senior Vice President), Standard Mining Corp. (President until it merged with Doublestar Resources Ltd. in 2001), Loki Gold Corporation (President), Baja Gold Inc. (President), Goldcliff Resource Corporation (Director) and 0373849 B.C. Ltd. (Director). In addition to holding a B.Sc. (Engineering) degree from Queen's University, in Kingston, Ontario, Mr. Saxton also earned an M.B.A. from the University of Western Ontario in London, Ontario.

160

Megan Spidle, C.A., Chief Financial Officer

Ms. Spidle is a Chartered Accountant with over 10 years experience in public practice, most recently as a Senior Manager of Assurance and Advisory Services at Deloitte & Touche, LLP. Ms Spidle also worked as Manager of Financing Reporting for Duke Energy, and was responsible for the financial accounting and reporting including the oversight of the quarterly and annual financial statements. Ms. Spidle is a David Hope Honour Role Recipient and was the Nova Scotia Bronze medalist for the Canadian Institute of Chartered Accountants Uniform Final Examination.

J. Trevor Eyton, B.A., S.J.D. (Law), Director

Mr. Eyton is a Member of the Senate of Canada and a director of Brookfield Asset Management Inc., Brookfield Infrastructure Partners L.P., Tudorcroft Investments Inc., Ivernia Inc., Silver Bear Resources Inc. and Coca-Cola Enterprises Inc. He is also Chairman of Canada's Sports Hall of Fame and a Governor of the Canadian Olympic Foundation and Junior Achievement of Canada. In 2002 he was awarded Mexico's Aguila Azteca – the highest award given to foreigners by the government of Mexico. Senator Eyton is also the co-founder and co-chairman of the Canada/Mexico Retreat, an organization formed in 1990 around the NAFTA discussions and now dedicated to promoting two-way trade and investment at the most senior levels in the two countries. Senator Eyton earned a B.A. from the University of Toronto in 1957 and a S.J.D. from the University of Toronto, School of Law in 1960.

R. Glen MacMullin, B.A. (Business Administration), Director

R. Glen MacMullin is currently a Vice President with the Minto Group, an integrated real estate development, construction and management company. Prior to his current position, Mr. MacMullin was a Managing Director with Xavier Sussex, LLC, a private investment firm he co-founded in 2004. Prior to 2004, he was a Director and Chief Operating Officer with the proprietary trading division of Deutsche Bank in New York. He previously served in various positions with Deutsche Bank Offshore in the Cayman Islands including Head of Investment Funds. Mr. MacMullin began his career in public accounting with Coopers & Lybrand in Ottawa, Canada and KPMG in the Cayman Islands. He holds a Bachelor of Business Administration degree from Saint Francis Xavier University in Antigonish, Nova Scotia and is a member of the Canadian Institute of Chartered Accountants.

Donald F. Flemming, B.A., Director

Mr. Flemming was previously a director and special committee member of Mexgold Resources Inc. He has been the President of Don Flemming Insurance since 1980. From 1970 to 1980 he served in different capacities for John Deere. He is a graduate of St. Mary's University of Halifax, Nova Scotia.

Committees of the Board of Directors

The board of directors has established an Audit Committee to oversee the retention, performance and compensation of Nayarit’s independent auditors, and to oversee and establish procedures concerning systems of internal accounting and control. The Audit Committee is currently comprised of Messrs. J. Trevor Eyton, R. Glen MacMullin (Chairman) and Donald F. Flemming.

The board of directors of Nayarit has also established a Compensation Committee to assist the board in settling the compensation of directors and senior executives, and developing and submitting to the board recommendations with regard to other employee benefits. The Compensation Committee is currently comprised of Messrs. J. Trevor Eyton, Paul Saxton and Donald F. Flemming (Chairman).

The board of directors has established a Corporate Governance & Nominating Committee which is charged with performing an annual evaluation of the effectiveness of the board of directors as a whole, the committees of the board and the contributions of individual directors. The Corporate Governance & Nominating Committee is currently comprised of Messrs. J. Trevor Eyton (Chairman), R. Glen MacMullin and Donald F. Flemming.

161

Corporate Cease Trade Orders or Bankruptcies

Except as disclosed elsewhere herein (see below, “Penalties or Sanctions”), no director, officer, promoter or principal stockholder of Nayarit is, or has been within the past ten years, a director, officer or promoter of any person or company that, while such person was acting in that capacity: (i) was the subject of a cease trade order or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days; or (ii) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Individual Bankruptcies

No director, officer, promoter or principal stockholder of Nayarit is or has, within ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Penalties or Sanctions

No director, officer, promoter or principal stockholder of Nayarit has: (i) been the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered a settlement agreement with a Canadian securities regulatory authority; or (ii) been the subject of any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered to be important to a reasonable investor making a decision about the Business Decision.

Executive Compensation

Named Executive Officers

For the purposes of this joint proxy statement/prospectus, a Named Executive Officer (“NEO”) of Nayarit means each of the following individuals:

(a) a chief executive officer (“CEO”) of Nayarit;

(b) a chief financial officer (“CFO”) of Nayarit;

(c) each of Nayarit’s three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year whose total compensation was, individually, more than CDN$150,000, for that financial year; and

(d) each individual who would be a NEO under paragraph (c) above but for the fact that the individual was neither an executive officer of Nayarit Gold, nor acting in a similar capacity, at the end of that financial year.

Nayarit currently has the following two NEO’s: Colin Sutherland (President and Chief Executive Officer) and Megan Spidle (Chief Financial Officer).

Compensation Discussion and Analysis

The Compensation Committee of Nayarit's board is responsible for ensuring that Nayarit has in place an appropriate plan for executive compensation and for making recommendations to the board with respect to the compensation of Nayarit's executive officers. The Compensation Committee ensures that total compensation paid to all NEO's is fair and reasonable and is consistent with Nayarit's compensation philosophy.

Compensation plays an important role in achieving short and long-term business objectives that ultimately drive business success. Nayarit's compensation philosophy is to foster entrepreneurship at all levels of the organization through, among other things, the granting of stock options, a significant component of executive compensation. This approach is based on the assumption that the performance of Nayarit's common share price over the long term is an important indicator of long term performance.

Nayarit's compensation philosophy is based on the following fundamental principles:

1. Compensation programs align with stockholder interests – Nayarit aligns the goals of executives with maximizing long term stockholder value;

2. Performance sensitive – compensation for executive officers should be linked to operating and market performance of Nayarit and fluctuate with the performance; and

3. Offer market competitive compensation to attract and retain talent – the compensation program should provide market competitive pay in terms of value and structure in order to retain existing employees who are performing according to their objectives and to attract new individuals of the highest caliber.

The objectives of the compensation program in compensating all NEO's were developed based on the above-mentioned compensation philosophy and are as follows:

- to attract and retain highly qualified executive officers;
- to align the interests of executive officers with stockholders' interests and with the execution of Nayarit's business strategy;
- to evaluate executive performance on the basis of key measurements of exploration management and business plan implementation that correlate to long-term stockholder value; and
- to tie compensation directly to those measurements and rewards based on achieving and exceeding predetermined objectives.

Competitive Compensation

Aggregate compensation for each NEO is designed to be competitive. The Compensation Committee reviews compensation practices of similarly situated companies in determining appropriate compensation. Although the Compensation Committee reviews each element of compensation for market competitiveness, and it may weigh a particular element more heavily based on the NEO's role within Nayarit, it is primarily focused on remaining competitive in the market with respect to total compensation.

The Compensation Committee reviews data related to compensation levels and programs of various companies that are similar in size to Nayarit and operate within the mining exploration and development industry, prior to making its decisions. Examples of these companies are Ventana Gold Corp., Greystar Resources Ltd. and Colombian Mines Corporation. These companies are used as Nayarit's primary peer group because they have similar business characteristics or because they compete with Nayarit for employees and investors. The Compensation Committee also relies on the experience of its members as officers and/or directors at other companies in similar lines of business as Nayarit in assessing compensation levels.

The purpose of this process is to:

- understand the competitiveness of current pay levels for each executive position relative to companies with similar revenues and business characteristics;
- identify and understand any gaps that may exist between actual compensation levels and market compensation levels; and

- establish a basis for developing salary adjustments and short-term and long-term incentive awards for the Compensation Committee’s approval.

Aligning the Interests of the NEO’s with the Interests of Nayarit’s Stockholders

Nayarit believes that transparent, objective and easily verified corporate goals, combined with individual performance goals, play an important role in creating and maintaining an effective compensation strategy for the NEO’s. Nayarit’s objective is to establish benchmarks and targets for its NEO’s which, if achieved, will enhance stockholder value. These benchmarks relate to completion of exploration programs on the basis of pre-established budgets and exploration success, as well as completion of equity financings on terms beneficial to Nayarit.

163

A combination of fixed and variable compensation is used to motivate executives to achieve overall corporate goals. For the 2009 financial year, the three basic components of executive officer compensation program were:

- fixed salary;
- annual incentives (cash bonus); and
- option based compensation.

Fixed salary comprises a portion of the total cash-based compensation; however, annual incentives and option based compensation represent compensation that is “at risk” and thus may or may not be paid to the respective executive officer depending on: (i) whether the executive officer is able to meet or exceed his or her applicable performance targets; and (ii) success in financing Nayarit and market performance of Nayarit Shares. To date, no specific formulae have been developed to assign a specific weighting to each of these components. Instead, the board considers each performance target and Nayarit’s performance and assigns compensation based on this assessment and the recommendations of the Compensation Committee.

Base Salary

The Compensation Committee and the board approve the salary ranges for the NEO’s. The base salary review for each NEO is based on an assessment of factors such as current competitive market conditions, compensation levels within the peer group and particular skills, such as leadership ability and management effectiveness, experience, responsibility and proven or expected performance of the particular individual. Comparative data for Nayarit’s peer group is also accumulated from a number of external sources including independent consultants. Nayarit’s policy for determining salary for executive officers is consistent with the administration of salaries for all other employees.

Annual Incentives

Nayarit, in its discretion, may award annual incentives by way of cash bonuses in order to motivate executives to achieve short-term corporate goals. The Compensation Committee and the board approve annual incentives.

The success of NEO’s in achieving their individual objectives and their contribution to Nayarit in reaching its overall goals are factors in the determination of their annual bonus. The Compensation Committee assesses each NEO's performance on the basis of his or her respective contribution to the achievement of the predetermined corporate objectives, as well as to needs of Nayarit that arise on a day to day basis. This assessment is used by the Compensation Committee in developing its recommendations to the Board with respect to the determination of annual bonuses for the NEO’s. Where the Compensation Committee cannot unanimously agree, the matter is referred to the full board for decision. The board relies heavily on the recommendations of the Compensation Committee in granting annual incentives.

Compensation and Measurements of Performance

The Board approves targeted amounts of annual incentives for each NEO at the beginning of each financial year. The targeted amounts are determined by the Compensation Committee based on a number of factors, including comparable compensation of similar companies.

Achieving predetermined individual and/or corporate targets and objectives, as well as general performance in day to day corporate activities, will trigger the award of a bonus payment to the NEO. The NEO will receive a partial or full incentive payment depending on the number of the predetermined targets met and the Compensation Committee's and the board's assessment of overall performance. The determination as to whether a target has been met is ultimately made by the board and the board reserves the right to make positive or negative adjustments to any bonus payment if they consider them to be appropriate.

164

Long Term Compensation

Nayarit currently has no long-term incentive plans, other than stock options granted from time to time by the Board under the provisions of Nayarit's Stock Option Plan.

Compensation Summary

The table below sets forth information concerning the compensation paid, awarded or earned by each of the NEO's for services rendered in all capacities to Nayarit during the fiscal years ended September 30, 2009, September 30, 2008 and September 30, 2007.

Name of NEO and Principal Position	Year	Salary ($)(1)	Share-Based Awards ($)	Option-Based Awards(2) ($)	Non-Equity Incentive Plan Compensation ($) Annual Incentive Plans	Non-Equity Incentive Plan Compensation ($) Long-Term Incentive Plans	Pension Value ($)	All Other Compen-sation ($)	Total Compen-sation ($)
Colin	2009	$ 250,000	N/A	Nil	$ 41,917	N/A	N/A	$ 12,274	$ 304,191
Sutherland	2008	$ 184,589	N/A	$ 380,000	Nil	N/A	N/A	$ 3,069	$ 567,658
CEO(3)	2007	$ 51,923	N/A	$ 408,000	Nil	N/A	N/A	Nil	$ 459,923
Paul F.	2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Saxton	2008	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CEO(3)	2007	$ 6,844	N/A	$ 163,200	Nil	N/A	N/A	Nil	$ 170,044
Michael A.	2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dehn(3)	2008	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CEO	2007	$ 48,000	N/A	N/A	Nil	NA	N/A	Nil	$ 48,000
Megan Spidle (4)	2009	$ 100,000	N/A	Nil	$ 4,167	N/A	N/A	Nil	$ 104,167
CFO	2008	$ 37,149	N/A	$ 57,000	Nil	N/A	N/A	Nil	$ 94,149
	2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dennis H.	2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Waddington (4)	2008	$ 38,660	N/A	N/A	Nil	N/A	N/A	Nil	$ 38,660
CFO	2007	$ 64,880	N/A	N/A	Nil	N/A	N/A	Nil	$ 64,880
Hall Stewart,	2009	$ 177,010	N/A	Nil	$ 42,105	N/A	N/A	Nil	$ 219,115
Vice-President of	2008	$ 4,344	N/A	$ 194,400	Nil	N/A	N/A	Nil	$ 198,744
Exploration	2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(1) Messrs. Saxton, Dehn and Waddington were engaged as consultants rather than employees. The amounts listed here reflect consulting fees received in accordance with their respective contracts.

(2) Options to purchase common shares of Nayarit granted pursuant to Nayarit's Stock Option Plan.

(3) Mr. Sutherland was appointed Chief Executive Officer of Nayarit and a member of the Board of Directors on September 21, 2005, serving in the first capacity until April 22, 2007 until Mr. Sutherland took over on June 6, 2007. Mr. Dehn was appointed as Chief Executive Officer and a member of the Board of Directors until September 21, 2005.

(4) Ms. Spidle was appointed Chief Financial Officer of Nayarit on May 12, 2008. Mr. Waddington served as Chief Financial Officer until May 12, 2008.

(5) Mr. Stewart served as Vice-President of Exploration of Nayarit from October 6, 2008 until February 15, 2010.

Incentive Plan Awards

Stock Option Plan

On April 7, 2005, the stockholders of Nayarit adopted a stock option plan which provided for 4,938,000 shares to be issued under the Plan. The stock option plan was further amended on June 23, 2006 to increase the number of shares to 7,160,000, on April 17, 2008 to increase the number of shares to 9,775,000 and on March 31, 2009 to increase the number of shares to 11,300,000.

165

The purpose of the plan is to encourage ownership of the Nayarit shares by the persons who are primarily responsible for the management and profitable growth of Nayarit's business, as well as provide additional incentive for superior performance by such persons and attract and retain valued personnel. The plan provides that eligible persons thereunder include any director, senior officer, consultant or employee of Nayarit. A consultant is defined as an individual who is engaged by Nayarit, under a written contract, to provide services on an ongoing basis and spends a significant amount of time on Nayarit's business and affairs. The definition of consultant also includes an individual whose services are engaged through a personal holding corporation.

The plan is administered by the board of directors of Nayarit, who have the authority to determine, among other things, subject to the terms of the plan and the requirements of regulatory authorities having jurisdiction, the terms, limitations, restrictions and conditions respecting the grant of options and issuance of Nayarit Shares thereunder.

The maximum number of Nayarit shares reserved for issuance under the plan from time to time must not exceed the amount equal to 5% of Nayarit's issued and outstanding shares at the time of grant. The maximum number of Nayarit shares that may be reserved for issuance to any one insider under the plan and any other share compensation arrangement may not exceed 5% of the issued and outstanding Nayarit shares at the time of grant (on a non-diluted basis). The plan also provides that the maximum number of Nayarit shares that may be reserved for issuance to insiders under the plan and any other share compensation arrangement shall not exceed 20% of the Nayarit shares outstanding at the time of grant (on a non-diluted basis) and the maximum number of Nayarit shares that may be issued to insiders under the plan or any other share compensation arrangement within a one-year period shall not exceed 10% of the Nayarit shares outstanding at the time of grant.

The board of directors of Nayarit has the authority under the plan to establish the option price at the time each option is granted, which price shall not be less than the market price of the Nayarit shares at the time of grant. Options granted under the stock option plan are exercisable over a period not exceeding five (5) years from the date of grant, subject to earlier termination if the optionee ceases to be an eligible person by reason of termination of employment, retirement, disability or death. The options granted under the plan are not transferable or assignable other than by will or the laws of descent and distribution. Options will be subject to such vesting schedule as determined by the board of directors and any applicable regulatory requirements.

Outstanding Option-Based and Share-based Awards

The following table sets out for each NEO, the incentive stock options (option-based awards) and share-based awards outstanding as at September 30, 2009.

	Option-based Awards(1)			
Name	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)
Colin Sutherland	500,000	0.98	May 17, 2012	-
	1,000,000	0.50	April 25, 2013	50,000
Hall Stewart	360,000	0.68	August 29, 2013	-
Megan Spidle	150,000	0.50	April 25, 2013	7,500

(1) The Stock Option Plan is a "rolling" stock option plan whereby the maximum number of common shares that may be reserved for issuance pursuant to the Stock Option Plan will not exceed 5% of the issued common shares at the

time of grant. As at the date hereof 11,300,000 Nayarit shares may be reserved for issuance pursuant to the Stock Option Plan.

The following table sets forth, as at September 30, 2009, aggregate information in respect to compensation plans of Nayarit under which equity securities of Nayarit are authorized for issuance.

166

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category(1)	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders (the only such plan is the Nayarit Gold stock option plan)	9,089,286	$ 0.65	2,210,714
Equity compensation plans not approved by security holders (Nayarit Gold does not have any such plan)	N/A	N/A	N/A

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(1) The only equity compensation plan of Nayarit is the Nayarit stock option plan, which has been approved by the Nayarit Stockholders.

Value Vested or Earned During the Year

The following table sets forth, for each NEO, the value of all incentive plan awards that vested during the year ended September 30, 2009.

Name	Option-based awards-Value vested during the year(1) (2) ($)	Share-based awards-Value vested during the year ($)	Non-equity incentive plan compensation-Value earned during the year ($)
Colin Sutherland	Nil	N/A	N/A
Hall Stewart	Nil	N/A	N/A
Megan Spidle	Nil	N/A	N/A

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(1) Summarizes for each of the NEO's the aggregate value that would have been realized if the options had been exercised on the vesting date during the financial year ended September 30, 2009. As these options were not necessarily exercised, or exercised on such vesting date, by the NEO's, these amounts do not necessarily reflect amounts realized by the NEO's during the year ended September 30, 2009.

(2) On each date during the year in which the stock options vested, the closing prices of Nayarit's shares were lower than the option exercise prices. Therefore, the options which had vested were not-in-the-money.

Employment Agreements – Termination and Change of Control Benefits

Colin Sutherland

Effective July 1, 2008, Nayarit entered into an Employment Agreement with Colin Sutherland, the President and Chief Executive Officer of Nayarit Gold, which provides, among other things, for a base salary of Cdn $250,000 per annum. Mr. Sutherland dedicates 100% of his time to Nayarit and has not entered into a non-competition or non-disclosure agreement with Nayarit Gold. Mr. Sutherland shall be eligible for consideration of an annual bonus (up to 150% of his base salary). Mr. Sutherland shall also be eligible to receive stock options at the discretion of the Board of Directors of Nayarit. In the event of a change of control of Nayarit, Mr. Sutherland may within 90 days of learning about the change of control give notice to Nayarit and such leaving shall be treated for all purposes as a termination by Nayarit. The employment agreement may be terminated by either party upon 90 days' written notice, and Mr. Sutherland (or his representatives, as applicable) shall be entitled to receive all accrued and unpaid salary and bonuses, and a lump sum payment equal to 3.0 times his annual salary and bonus, less any statutorily required deductions. In the event of termination by Nayarit Gold by reason of death or incapacity prior to the initial term, Mr. Sutherland shall be entitled to receive the balance of the unpaid compensation (including any incentive compensation) not covered by insurance. Mr. Sutherland has agreed with Nayarit that the Business Combination will not trigger the termination payment associated with a change in control.

Megan Spidle

Effective October 17, 2008, Nayarit entered into am Employment Agreement with Megan Spidle, the Chief Financial Officer of Nayarit, which provides, among other things, for a base fee of CDN$100,000 per annum. Ms. Spidle dedicates 100% of her time to Nayarit and has not entered into a non-competition or non-disclosure agreement with Nayarit. Ms. Spidle shall be eligible for consideration of an annual bonus (up to 150% of her base salary). Ms. Spidle shall also be eligible to receive stock options at the discretion of Nayarit. In the event of a change of control of Nayarit, Ms. Spidle may within 90 days of learning about the change of control give notice to Nayarit and such leaving shall be treated for all purposes as a termination by Nayarit. The employment agreement may be terminated by either party upon 90 days' written notice, and Ms. Spidle (or her representatives, as applicable) shall be entitled to receive all accrued and unpaid salary and bonuses, and a lump sum payment equal to 2.0 times her annual salary and bonus, less any statutorily required deductions. In the event of termination by Nayarit by reason of death or incapacity prior to the initial term, Ms. Spidle shall be entitled to receive the balance of the unpaid compensation (including any incentive compensation) not covered by insurance. Pursuant to the Business Combination Agreement Ms. Spidle will be entitled to the termination payment associated with a change in control if her employment agreement is terminated pursuant the terms of the Business Combination Agreement.

Pension Plan Benefits

Nayarit does not have a pension plan or deferred compensation plan.

Director Compensation

The following table sets out, for each director (other than Colin Sutherland who is an NEO) compensation received for the fiscal year ended September 30, 2009.

Name	Fees Earned ($)	Option-Based Awards(1) ($)	Non-Equity Incentive Plan Compensation ($)	Pension Value ($)	All Other Compensation ($)	Total ($)
Paul F. Saxton	Nil	Nil	N/A	N/A	N/A	Nil
J. Trevor Eyton	Nil	Nil	N/A	N/A	N/A	Nil
R. Glen MacMullin	Nil	$ 9,250	N/A	N/A	N/A	$ 9,250
Donald F. Flemming	Nil	$ 9,250	N/A	N/A	N/A	$ 9,250

(1) The fair value of share-based awards is calculated as at the date of grant using the Black-Scholes Option Pricing Model. Option-pricing models require the use of highly subjective estimates and assumptions including the expected stock price volatility. Changes in the underlying assumptions can materially affect the fair value estimates and therefore, in management's opinion, existing models do not necessarily provide a reliable measure of the fair value of Nayarit's share and option-based awards.

Directors of Nayarit (other than Colin Sutherland who is an NEO) are remunerated for their services as follows:

	Annual fee per director	Aggregate annual fee
Annual fee paid to each director	Nil	Nil
Vice-Chairman of the board of directors	N/A	N/A
Chairman of audit committee	Nil	Nil
Chairmen of other committees	Nil	Nil

Directors may also be compensated for services provided to Nayarit as consultants or experts on the same basis and at the same rate as would be payable if such services were provided by a third party, arm's length service provider. To date, no such services have been provided to Nayarit by any of its directors.

Directors and Officers Liability Insurance

Nayarit maintains directors' and officers' liability insurance.

Outstanding Option-Based and Share-Based Awards

The following table sets out, for each director (other than Colin Sutherland who is an NEO) the stock options (option-based awards) outstanding as at September 30, 2009.

Name	Number of Securities Underlying Unexercised Options	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-The-Money Options ($)(1)
Paul F. Saxton	200,000	$ 0.98	May 17, 2012	Nil
J. Trevor Eyton	400,000	$ 0.35	May 18, 2010	$ 80,000
	250,000	$ 1.30	May 3, 2011	Nil
R. Glen MacMullin	50,000	0.90	June 6, 2012	Nil

	25,000	0.50	February 10,2014	1,250
Donald F. Flemming	50,000	0.90	August 1, 2012	Nil

169

Name	Number of Securities Underlying Unexercised Options	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-The-Money Options ($)(1)
	25,000	0.50	February 10,2014	1,250

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(1) Calculated as the closing price of the Company's shares on the Toronto Stock Exchange Venture Exchange at September 30, 2009.

Value Vested or Earned During the Year

The following table sets forth, for each director (other than Colin Sutherland who is an NEO) the value of all incentive plan awards that vested during the year ended September 30, 2009.

Name	Option-based awards-Value vested during the year(1) ($)	Share-based awards-Value vested during the year(1) ($)	Non-equity incentive plan compensation-Value earned during the year ($)
Paul F. Saxton	Nil	N/A	N/A
J. Trevor Eyton	Nil	N/A	N/A
R. Glen MacMullin	$ 3,750	N/A	N/A
Donald F. Flemming	$ 3,750	N/A	N/A

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(1) Summarizes for each of the directors who is not a NEO the aggregate value that would have been realized if the options had been exercised on the vesting date during the financial year ended September 30, 2009. As these options were not necessarily exercised, or exercised on such vesting date, by such directors, these amounts do not necessarily reflect amounts realized by such directors during the year ended September 30, 2009.

Indebtedness of Directors and Executive Officers

None of the directors, executive officers or employees of Nayarit or any of its subsidiaries and former directors, executive officers and employees of Nayarit or any of its subsidiaries had any indebtedness outstanding to Nayarit or any of its subsidiaries as at the date hereof except as disclosed below. In addition, no indebtedness of these individuals to another entity has been the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding of Nayarit or any of its subsidiaries.

Statement of Corporate Governance Practices

Board and senior management consider good corporate governance to be central to the effective and efficient operation of Nayarit. The Board has confirmed the strategic objective of Nayarit is seeking out and exploring mineral bearing deposits with the intention of developing and mining the deposit or proving the feasibility of mining the deposit for others.

Canadian National Instrument 58-101 - Disclosure of Corporate Governance Practices (“NI 58-101”) requires Nayarit to disclose its corporate governance practices by providing in this document the disclosure required by Form 58-101F1. Canadian National Instrument 58-201 – Corporate Governance Guidelines (“NI 58-201”) establishes corporate governance guidelines which apply to all public companies. Nayarit has reviewed its own corporate governance practices in light of these guidelines. In certain cases, Nayarit’s practices comply with the guidelines; however, the Board considers that some of the guidelines are not suitable for Nayarit at its current stage of development and therefore these guidelines have not been adopted. If the Business Combination is not consummated, Nayarit will continue to review and implement corporate governance guidelines as the business of Nayarit progresses and becomes more active in operations.

Form 58-101 F1 – Corporate Governance Disclosure (TSX Issuers)

Board of Directors

The Board is currently composed of five (5) directors. Form 58-101F1 suggests that the board of directors of every listed company should be constituted with a majority of individuals who qualify as "independent" directors under Canadian Multilateral Instrument 52-110 - Audit Committees ("MI 52-110")," which provides that a director is independent if he or she has no direct or indirect "material relationship" with the company. "Material relationship" is defined as a relationship which could, in the view of the company's board of directors, be reasonably expected to interfere with the exercise of a director's independent judgment and, specifically in addition to other circumstances, excludes "independence" where the individual has received more than $75,000 in direct compensation during a twelve month period in the prior three years.

Colin Sutherland (President and Chief Executive Officer) and Paul Saxton (Chairman) are not "independent" under MI 52-110 because they are "insider" or management directors and accordingly are not considered "independent" as a result of this relationship.

The remaining three (3) directors, J. Trevor Eyton, R. Glen MacMullin and Donald F. Flemming, are considered by the Board to be "independent", within the meaning of MI 52-110. In assessing Form 58-101F1 and making the foregoing determinations, the circumstances of each director has been examined in relation to a number of factors as noted above.

A majority of the directors are independent, as three of the five directors are independent as noted above. To facilitate the functioning of the board of directors independently of management, the following structures and processes are in place:

- when appropriate, members of management, are not present for the discussion and determination of certain matters at meetings of the board of directors. During the most recently completed financial year, one meeting of the independent directors was held, and it is Nayarit's policy to hold at least one meeting of the independent board of directors during each financial year;

- under the by-laws of Nayarit, any two directors may call a meeting of the board of directors;

- the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee consist of a majority of independent directors who meet independent of management directors; and

- in addition to the above standing Committees of the board of directors, independent committees are appointed from time to time, when appropriate.

Each of the directors of Nayarit attended each meeting of the board of directors held since May 2, 2005, with the exception of directors who are not independent in the case of meetings of the independent directors. The following table sets forth the directors of Nayarit who currently hold directorships and/or are officers with other reporting issuers:

Name of Director	Reporting Issuer
Colin Sutherland	Not Applicable.
Paul F. Saxton	

	Goldcliff Resource Corporation, Zazu Metals Corporation, Lincoln Gold Corporation, 0373849 B.C. Ltd., Pinnacle Mines Ltd.
J. Trevor Eyton	Richview Resources Inc., Brookfield Asset Management Inc., Ivernia Inc., Silver Bear Resources Inc., Brookfield Infrastructure Partners L.P.
R. Glen MacMullin	Silver Dragon Resources Inc.
Donald F. Flemming	Not Applicable.

Mandate of the Board of Directors

The duties and responsibilities of the board of directors are:

171

- to supervise the management of the business and affairs of Nayarit; and
- to act with a view towards the best interests of Nayarit.

In discharging its mandate, the Board of Directors is responsible for the oversight and review of the development of, among other things, the following matters:

- the strategic planning process of Nayarit;
- identifying the principal risks of Nayarit's business and ensuring the implementation of appropriate systems to manage these risks;
- succession planning, including appointing, training and monitoring senior management;
- a communications policy for Nayarit to facilitate communications with investors and other interested parties; and
- the integrity of Nayarit's internal control and management information systems.

The Board of Directors also has the mandate to assess the effectiveness of the Board of Directors as a whole, its committees and the contribution of individual directors.

Position Descriptions

The Board of Directors of Nayarit has developed written position descriptions for the Chairman, the Chairman of each Board Committee, the Chief Executive Officer, the President and the Chief Financial Officer.

Orientation and Continuing Education

When new directors are appointed, they receive an orientation on the role of the board, its Committees and its directors, and the nature and operation of Nayarit's business, which consists of the following:

- an orientation session with senior officers to overview Nayarit's business and affairs;
- an orientation session with the Chairman and the Chairperson of each standing Committee; and
- an orientation session with legal counsel and the representatives of Nayarit's auditors.

Continuing education is provided to directors through provision of literature regarding current developments. Additionally, historically board members have been nominated who are familiar with Nayarit and the nature of its business. The Corporate Governance & Nominating Committee take primary responsibility for the orientation and continuing education of directors and officers.

Ethical Business Conduct

The board of directors of Nayarit has adopted a written code for the directors, officers and employees of Nayarit. Copies of the code of conduct are available upon written request from the Chief Financial Officer of Nayarit. The Audit Committee is responsible for ensuring compliance with Nayarit's code of conduct. There have been no departures from Nayarit's code of conduct during the most recently completely financial year.

In addition to those matters which, by law, must be approved by the board of directors, the approval of the board of directors is required for:

- Nayarit's annual business plan and budget;
- major acquisitions or dispositions by Nayarit; and
- transactions which are outside of Nayarit's existing business.

172

To ensure the directors exercise independent judgment in considering transactions and agreements in which a director or officer has a material interest, all such matters are considered and approved by the independent directors.

Nayarit believes that it has adopted corporate governance procedures and policies which encourage ethical behavior by Nayarit's directors, officers and employees.

Nomination of Directors

The Corporate Governance & Nominating Committee has oversight of all board corporate governance matters, and undertakes the process for recruitment and review of nominees for the board of directors. The recruitment of new directors has generally resulted from recommendations made by directors and stockholders in a process which is managed by the Corporate Governance & Nominating Committee. The assessment of the contributions of individual directors has principally been the responsibility of the board. Prior to standing for election, new nominees to the board are reviewed by the entire board based on recommendations formulated by the Corporate Governance & Nominating Committee.

Other Board Committees

There are no board committees other than the Audit Committee, the Corporate Governance & Nominating Committee and a Compensation Committee and the Compensation Committee.

Assessments

Currently the board takes responsibility for monitoring and assessing its effectiveness and the performance of individual directors, its committees, including reviewing the board's decision-making processes and the quality of information provided by management, and among other things:

- overseeing strategic planning;
- monitoring the performance of Nayarit's assets;
- evaluating the principal risks and opportunities associated with Nayarit's business and overseeing the implementation of appropriate systems to manage these risks;
- approving specific acquisitions and divestitures;
- evaluating senior management; and
- overseeing Nayarit's internal control and management information systems.

Audit Committee Information

The Audit Committee of Nayarit's board of directors is principally responsible for:

- recommending to Nayarit's board of directors the external auditor to be nominated for election by Nayarit's stockholders at each annual meeting and negotiating the compensation of such external auditor;

- overseeing the work of the external auditor;

- reviewing Nayarit's annual and interim financial statements, Management's Discussion and Analysis and press releases regarding earnings before they are reviewed and approved by the board of directors and publicly disseminated by Nayarit; and

-

reviewing Nayarit's financial reporting procedures to ensure adequate procedures are in place for Nayarit's public disclosure of financial information extracted or derived from its financial statements, other than disclosure described in the previous paragraph.

173

Canadian Multilateral Instrument 52-110 – Audit Committees (“MI 52-110”) requires that certain information regarding the Audit Committee be included in the management information circular sent to stockholders in connection with the issuer’s annual meeting.

Audit Committee Charter

The full text of the charter of Nayarit’s Audit Committee is available upon request and may be downloaded from the Ontario Securities Commission’s SEDAR web site.

Composition of the Audit Committee

The Audit Committee members are J. Trevor Eyton, R. Glen MacMullin and Donald F. Flemmings, each of whom is a director and considered “financially literate” and “independent” in accordance with MI 52-110. Mr. MacMullin is the Chairman of the Audit Committee.

Relevant Education and Experience

The relevant education and/or experience of each member of the Audit Committee are as follows:

Name of Member	Education	Experience
J. Trevor Eyton	Mr. Eyton earned a B.A. from the University of Toronto and a S.J.D. from the University of Toronto School of Law.	Mr. Eyton is a Member of Senate of Canada. He is also Chairman of Canada's Sports Hall of Fame and a Governor of the Canadian Olympic Foundation and Junior Achievement of Canada. Senator Eyton is also the co-founder and co-chairman of the Canada/Mexico Retreat, an organization form in 1990 around the NAFTA which promotes two-way trade and investment at the most senior levels in the two countries.
R. Glen MacMullin	Mr. MacMullin holds a Bachelor of Business Administration degree from Saint Francis Xavier University of Antigonish, Nova Scotia and is a member of the Canadian Institute of Chartered Accountants.	R. Glen MacMullin is currently a Vice President with the Minto Group, an integrated real estate development, construction and management company. Prior to his current position, Mr. MacMullin was a Managing Director with Xavier Sussex, LLC, a private investment firm he co-founded in 2004. Prior to 2004, he was a Director and Chief Operating Officer with the proprietary trading division of Deutsche Bank in New York. He previously served in various positions with Deutsche Bank Offshore in the Cayman Islands including Head of Investment Funds. Mr. MacMullin began his career in public accounting with Coopers & Lybrand in Ottawa, Canada and KPMG in the Cayman Islands

Donald F. Flemming	Mr. Flemming is a graduate of St. Mary's University in Halifax, Nova Scotia.	Mr. Flemming has been the President of Don Flemming Insurance since 1980.

Reliance on Exemptions in MI 52-110

Since the commencement of Nayarit's most recently completed financial year, Nayarit Gold has not relied on an exemption from MI 52-110.

174

Audit Committee Oversight

Since the commencement of Nayarit’s most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by Nayarit’s Board.

Pre-Approval Policies and Procedures

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in the Charter. Pursuant to the Charter for the Audit Committee, the Audit Committee has the responsibility to review and approve the fees charged by the external auditors for audit services, and to review and approve all services other than audit services to be provided by the external auditors, and associated fees.

Audit Fees

The following table provides detail in respect of audit, audit related, tax and other fees paid by Nayarit to the external auditor for professional services:

	Audit Fees	Audit-Related Fees	Tax Fees	All Other Fees
Year ended September 30, 2009	$ 45,000	Nil	$ 5,000	Nil
Year ended September 30, 2008	$ 59,000	Nil	$ 5,000	Nil

Audit Fees – Audit fees were paid for professional services rendered by the auditor for the audit of Nayarit’s annual financial statements as well as services provided in connection with statutory and regulatory filings.

Audit-Related Fees – Audit-related fees were paid for professional services rendered by the auditor and consisted primarily of file quality review fees and fees for the review of quarterly financial statements and related documents.

Tax Fees – Tax fees were paid for tax compliance, tax advice and tax planning professional services. These services included reviewing tax returns and assisting in responses to government tax authorities.

All Other Fees – No other fees were billed by the auditor of Nayarit.

Legal Proceedings and Regulatory Actions

Nayarit is not a party to and none of its property is the subject of any legal proceedings as at the date of this joint proxy statement/prospectus and Nayarit knows of no such legal proceedings currently contemplated.

Nayarit is not the subject of any penalties or sanctions imposed against it by a court relating to provincial and territorial securities legislation or by a securities regulatory authority as at the date of this joint proxy statement/prospectus or from the date of incorporation. Nayarit Gold is not the subject of any other penalties or sanctions imposed by a court or regulatory body against it necessary for the joint proxy statement/prospectus to contain full, true and plain disclosure of all material facts relating to Nayarit. Nayarit has not entered into any settlement agreements before a court relating to provincial and territorial securities legislation or with a securities regulatory authority as at the date of this joint proxy statement/prospectus or from the date of incorporation.

Conflicts of Interest

Certain directors and officers of Nayarit may serve from time to time as directors, officers, promoters and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a director or officer of Nayarit and their duties as a director, officer, promoter or member of management of such other companies. In accordance with the Business Corporations Act (Ontario), directors must keep the board of Nayarit advised, on an ongoing basis, of any interest that could potentially conflict with those of Nayarit. Nayarit has also established protocols setting out:

175

- the structures and procedures which are in place to ensure that the consideration by the Board and management of Nayarit's business and the business of its subsidiaries is undertaken free from any actual, or the appearance of any, conflict of interest; and

- the requirement and process for each director to declare any interest he or she has in the matter being considered by the board of Nayarit and appropriate measures to be taken upon that declaration.

Where the board of Nayarit believes a significant conflict exists, the director concerned does not receive the relevant board of Nayarit documentation and is not present at the Nayarit board of directors meeting whilst the item is considered.

Other than as set out herein, to the best of its respective knowledge, Nayarit is not aware of the existence of any existing or potential material conflicts of interest between Nayarit and any of its directors.

Interest of Certain Persons in Matters to be Acted Upon

Other than as described herein, Nayarit is not aware of any material interest, direct or indirect, in any matter to be acted upon at the Nayarit Special Meeting, by way of beneficial ownership of securities or otherwise, of any director or executive officer (or any associated or affiliate thereof) of Nayarit.

Interest of Informed Persons in Material Transactions

No Informed Person of Nayarit, or any associate or affiliate of any of the foregoing person has any material interest, direct or indirect, in any transaction which has occurred since the amalgamation of Nayarit, or in any proposed transaction that has materially affected or would materially affect Nayarit, except for the following:

(a) It is currently anticipated that Colin Sutherland, a nominee of Nayarit, will serve as director of Capital Gold following the Business Combination and that Bradley Langille and Colin Sutherland will join Capital Gold as senior officers.

(b) For a period of thirty-six (36) months following the Effective Time of the Business Combination, Capital Gold and Nayarit have agreed that they shall cause their nominees on the Board of Directors to execute and deliver an undertaking whereby such nominees agree to: (i) nominate the agreed upon individuals for re-election at each annual meeting of the stockholders of Capital Gold; and (ii) cause any successors chosen by such nominees to comply with the foregoing provision at each annual meeting of the stockholders of Capital Gold.

(c) As a condition to closing the Business Combination, Capital Gold and Nayarit have agreed that the employment agreements between Nayarit, on one hand, and each of Colin Sutherland and Bradley Langille, on the other hand, shall either have been (i) terminated prior to the Effective Date in accordance with the terms thereof, including payment of all termination payments prescribed therein (except for any payments relating to the change of control of Nayarit), or (ii) terminated with no payment of change of control benefits in consideration for the execution of a new employment agreement with Parent on terms comparable to the other senior officers of Parent.

Non-Arm's Length Party Transactions

Other than as disclosed in this joint proxy statement/prospectus, in connection with any transaction completed within the previous two years prior to the date hereof, Nayarit has not provided or proposed to provide any assets or services to or obtained or proposed to obtain any assets or services from any director or officer of Nayarit, any principal security holder disclosed elsewhere in this joint proxy statement/prospectus, or any associates or affiliates of the foregoing.

176

Registrar and Transfer Agent

The registrar and transfer agent of Nayarit is Computershare Trust Company of Canada at 1969 Upper Water Street, Purdy's Wharf II, Suite 2008, Halifax, NS B3J 3R7.

Material Contracts

The only material contracts entered into by Nayarit, other than in the ordinary course of business, since the date of incorporation are as follows:

(a) Letter of Intent dated December 17, 2009, 2010 between Nayarit and Capital Gold respecting the Business Combination of Nayarit and Capital Gold;

(b) Amalgamation Agreement dated February 10, 2010 between Nayarit and Capital Gold;

(c) N143-101 Preliminary Assessment Nayarit Gold Inc., Orion Project, Del Norte Zone, State of Nayarit, Mexico dated January 25, 2010, prepared by SRK Consulting, Engineers and Scientists (the "Orion Project Report");

(d) the 10% net profits interest with respect to the Orion Concession held by Portree Inc. dated November 30, 1999;

(e) the 3.5% net smelter return royalty with respect to the Orion Concession held by Belitung Limited dated January 30, 2004;

(f) the Option Agreement with respect to the La Estrella Property dated November 28, 2003; and

(g) the Option Agreement with respect to the Huajicari Property dated May 8, 2008.

Experts and Interests of Experts

Certain legal matters relating to the securities offered hereby will be passed upon on behalf of Nayarit by Peterson Law Professional Corporation, Barristers & Solicitors, Toronto, Ontario. The foregoing professional firm, its partners, employees and associates, as a group, own beneficially, directly or indirectly, less than one percent of the securities of Nayarit.

Technical information concerning the Orion Gold Project is based on the Orion Project Report which provides an independent technical review of this project. The Orion Project Report was prepared by SRK Consulting. Peter Clarke, B.Sc., MBA, P.Eng., is a "Qualified Person" as such term is defined in NI 43-101. SRK Consulting and Peter Clarke are independent of Nayarit Gold within the meaning of NI 43-101. Peter Clarke and the directors, officers and employees of SRK Consulting, do not own any securities of Nayarit.

Other Material Facts

Other than as set forth below and as disclosed elsewhere in this joint proxy statement/prospectus regarding Nayarit, there are no material facts about the Business Combination that are necessary to be disclosed in order for this joint proxy statement/prospectus to contain full, true and plain disclosure of all material facts relating to the Business Combination.

Approvals

The contents relating to Nayarit only and the sending of this joint proxy statement/prospectus to Nayarit stockholders has been approved by the board of directors of Nayarit.

177

MANAGEMENT OF CAPITAL GOLD FOLLOWING THE BUSINESS COMBINATION

Directors and Executive Officers

Pursuant to the terms of the Business Combination Agreement, the board of directors of Capital Gold shall consist of either five (5) or seven (7) directors, in either event to include John Brownlie, Stephen M. Cooper, John W. Cutler, Leonard J. Sojka, each a current director of Capital Gold, and Colin Sutherland, a nominee of Nayarit. John Brownlie will continue to serve as President and Chief Operating Officer of Capital Gold and Bradley Langille and Colin Sutherland will join Capital Gold as senior officers. For a period of thirty-six (36) months following the Effective Time, Capital Gold and Nayarit have agreed that they shall cause their nominees on the board of directors to execute and deliver an undertaking whereby such nominees agree to: (i) nominate the foregoing individuals for re-election at each annual meeting of the stockholders of Capital Gold; and (ii) cause any successors chosen by such nominees to comply with the foregoing provision at each annual meeting of the stockholders of Capital Gold. Capital Gold and Nayarit intend to appoint an independent director as chair of the board of directors of Capital Gold. Immediately following the Business Combination, Capital Gold's directors and executive officers will be as follows:

Name	Age	Position
John Brownlie	59	President, Chief Operating Officer
Leonard J. Sojka	53	Director
John W. Cutler	60	Director
Stephen M. Cooper	46	Director
Christopher Chipman	37	Chief Financial Officer
J. Scott Hazlitt	57	Vice President – Mine Development
Bradley Langille	49	Senior Vice President, Business Development
Colin Sutherland	39	Director and Senior Vice President, Finance & Corporate Development

See "Information About Capital Gold—Management of Capital Gold" for biographical information of Messrs. Brownlie, Cooper, Cutler, Sojka, Chipman and Hazlitt. See "Information About Nayarit—Directors and Officers" for biographical information of Mr. Sutherland. Mr. Langille's biographical information follows:

BRADLEY LANGILLE. Mr. Langille is the co-founder of both Gammon Gold Inc. and Mexgold Resources Inc., both of which are gold and silver producers in Mexico. Mr. Langille served as a Director and Chief Executive Officer of both companies from 2003 to 2006, and successfully built both companies from its grass roots state to commercial production, raising in excess of $500 million for the development and construction of both mines. Mr. Langille has been an integral part of the growth and success of Gammon Gold Inc., and has directed the growth and development of the properties since 1997.

Committees of the Board of Directors

The members of the committees of Capital Gold's board of directors will not be appointed until Capital Gold's board of directors is fully constituted and holds its initial meeting. At that time, Capital Gold's board of directors will make determinations with respect to each committee member's independence in accordance with the NYSE Amex listing standards and SEC rules and regulations and each committee will adopt its committee charter.

Following the Business Combination, Capital Gold intends to post any amendments or revisions to the committee charters on its website at www.capitalgoldcorp.com.

178

Audit Committee

The audit committee will at all times be composed of exclusively independent directors who are "financially literate," meaning they are able to read and understand fundamental financial statements, including Capital Gold's balance sheet, income statement and cash flow statement. In addition, the committee will have at least one member who qualifies as an "audit committee financial expert" as defined in rules and regulations of the SEC. Immediately prior to the Business Combination, Capital Gold's board of directors will also make determinations regarding the financial literacy and financial expertise of each member of the audit committee in accordance with the NYSE Amex listing standards and SEC Rule 10A-3.

The principal duties and responsibilities of Capital Gold's audit committee will be to engage Capital Gold's independent auditors, oversee the quality and integrity of Capital Gold's financial reporting and the audit of Capital Gold's financial statements by its independent auditors and in fulfilling its obligations, Capital Gold's audit committee will review with Capital Gold's management and independent auditors the scope and result of the annual audit, the auditors' independence and Capital Gold's accounting policies.

The audit committee will be required to report regularly to Capital Gold's board of directors to discuss any issues that arise with respect to the quality or integrity of Capital Gold's financial statements, its compliance with legal or regulatory requirements, the performance and independence of Capital Gold's independent auditors, or the performance of the internal audit function.

Once the board holds its initial meeting, Capital Gold will identify which members of the Board of Directors will serve on the audit committee and which member of the audit committee will be designated as the audit committee financial expert.

Compensation Committee

The compensation committee will at all times be composed of exclusively independent directors. Among other functions, the compensation committee will oversee the compensation of Capital Gold's chief executive officer and other executive officers and senior management, including plans and programs relating to cash compensation, incentive compensation, equity-based awards and other benefits and perquisites and administers any such plans or programs as required by the terms thereof.

Compensation Committee Interlocks and Insider Participation

Once the board holds its initial meeting, Capital Gold will identify which, if any, members of the compensation committee have had any relationships with Capital Gold of the type required to be disclosed by Item 404 of Regulation S-K of the SEC rules and regulations. None of the individuals who will be an executive officer of Capital Gold following the Business Combination has served as a member of the board of directors, or as a member of the compensation or similar committee, of any entity that has one or more executive officers who will serve on Capital Gold's board of directors immediately following the Business Combination.

Our President and COO, John Brownlie, currently serves on the board of directors of Palladon Ventures Ltd., a mining exploration and development company. John W. Cutler is currently serving as the President, Chief Executive Officer and a director of Palladon Ventures Ltd. and Leonard J. Sojka serves as a director, corporate secretary and chief financial officer for Palladon Ventures Ltd.

Corporate Governance Committee

The corporate governance committee will at all times be composed of exclusively independent directors. The principal duties and responsibilities of Capital Gold's corporate governance committee will be to identify qualified individuals to become board members, recommend to the board of directors individuals to be designated as nominees for election as directors at the annual meetings of stockholders, and develop and recommend to the board of directors Capital Gold's corporate governance guidelines.

Once the board holds its initial meeting, Capital Gold will identify which members of the Board of Directors will serve on the corporate governance committee.

179

Code of Conduct and Ethics

Capital Gold's Board of Directors 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 on Capital Gold's website at www.capitalgoldcorp.com, where it may be found under the Corporate Info; Corporate Governance tab. You also may obtain a copy of this code by written request to our Office Manager at 76 Beaver Street, 14th Floor, New York, NY 10005. Capital Gold's Board of Directors is required to approve any substantive amendments to this code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to its chief executive officer, principal financial officer or principal accounting officer and Capital Gold will disclose the nature of such amendment or waiver in a report on Form 8-K within four business days.

Director Compensation

Capital Gold's independent directors each receive a fee of $2,000 per month. Non-independent directors each receive $1,000 per month. Directors are reimbursed for their accountable expenses incurred in attending meetings and conducting their duties. Independent directors can earn additional committee fees if serving on a form of sub-committee of the board of directors.

Executive Compensation

Capital Gold is currently reevaluating the executive compensation structures and systems that Capital Gold will provide for its named executive officers, with attention to instituting equity awards under the equity incentive plan with attention to encouraging long-term sustained performance.

Employment Agreements

In connection with the consummation of the Business Combination and as a condition to closing, Capital Gold intends to negotiate new employment agreements with Colin Sutherland and Bradley Langille.

Corporate Headquarters

The corporate headquarters of the combined company following consummation of the Business Combination will be located in Denver, Colorado. Capital Gold will maintain a satellite office in Halifax, Canada and corporate financial offices in Philadelphia, Pennsylvania.

GLOSSARY OF TERMS

Technical Terms

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

Additional Definitions

Caliche:	Sediment cemented by calcium carbonate near surface.
Diorite:	Igneous Rock (Rock formed from magma or molten rock).
Dore:	Bars of low purity precious metal (Gold & Silver) which represents final product of a gold mine typically weighing 25 kg per bar.
Dikes:	Tabular, vertical bodies of igneous rock.
Fissility:	Shattered, broken nature of rock.
Fracture Foliations:	Fracture pattern in rock, parallel orientation, resulting from pressure.

181

Heap Leaching:	Broken and crushed ore on a pile subjected to dissolution of metals by leach solution.
Hydrometallurgical Plant:	A metallurgical mineral processing plant that uses water to leach or separate and concentrate elements or minerals.
Intercalated:	Mixed in.
Lithostatic Pressure:	Pressure brought on by weight of overlaying rocks.
Major Intrusive Center:	An area where large bodies of intrusive igneous rock exist and through which large amounts of mineralizing fluids rose.
Mesothermal:	A class of hydrothermal ore deposit formed at medium temperatures and a depth over one mile in the earth's crust.
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.
PPM:	Part per million.
Pyritized:	Partly replaced by the mineral pyrite.
Reverse Circulation Drilling (or R.C. Drilling):	Type of drilling using air to recover cuttings for sampling through the middle of the drilling rods rather than the outside of the drill rods, resulting in less contamination of the sampled interval.
Sericitized:	Rocks altered by heat, pressure and solutions resulting in formation of the mineral sericite, a very fine grained mica.
Siltstone:	A sedimentary rock composed of clay and silt sized particles.
Silicified:	Partly replaced by silica.
Stockwork Breccia:	Earth's crust broken by two or more sets of parallel faults converging from different directions.
Stockwork:	Ore, when not in strata or in veins but in large masses, so as to be worked in chambers or in large blocks.
Surface Mine:	Surface mining by way of an open pit without shafts or underground working.

182

LEGAL MATTERS

The validity of the shares of Capital Gold common stock to be issued in connection with the Business Combination will be passed upon for Capital Gold by Ellenoff Grossman & Schole, LLP, 150 East 42nd Street, New York, New York. Kavinoky Cook LLP, 726 Exchange Street, Buffalo, New York, 14210 serves as counsel for Nayarit.

EXPERTS

The financial statements of Capital Gold for the years ended July 31, 2009, 2008 and 2007, appearing in this joint proxy statement/prospectus and in the registration statement have been included herein in reliance upon the report of Wolinetz, Lafazan & Company, an independent registered public accounting firm, given on the authority of such firm as experts in accounting and auditing.

The financial statements of Nayarit as at September 30, 2009 and for the year ended September 30, 2009 included in this joint proxy statement/prospectus and in the registration statement have been so included in reliance upon the report of PricewaterhouseCoopers LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Nayarit as at September 30, 2008 and for the year ended September 30, 2008 included in this joint proxy statement/prospectus and in the registration statement have been so included in reliance upon the report of McGovern, Hurley, Cunningham, LLP, independent auditors, given on the authority of said firm as experts in auditing and accounting.

OTHER MATTERS

Neither the Capital Gold board of directors nor the Nayarit board of directors know of any matters to be presented at their respective special meetings other than the proposals described in this joint proxy statement/prospectus. If any other matters are properly brought before either special meeting or any adjournment of either meeting, the enclosed proxy will be deemed to confer discretionary authority on the individuals named as proxies to vote the shares represented by the proxy as to any such matters.

DEADLINE FOR RECEIPT OF CAPITAL GOLD STOCKHOLDER PROPOSALS

Proposals of stockholders to be considered for inclusion in the Proxy Statement and proxy card for Capital Gold's 2010 Annual Meeting of Stockholders must be received by Capital Gold's Secretary, at Capital Gold Corporation, 76 Beaver Street, 14th Floor, New York, NY 10005 no later than August 17, 2010, which is 120 days prior to the first anniversary of the mailing date of the proxy statement.

Pursuant to Capital Gold's Amended and Restated By-laws, all stockholder proposals may be brought before an annual meeting of stockholders only upon timely notice thereof in writing having been given to the Secretary of Capital Gold. To be timely, a stockholder's notice, for all stockholder proposals shall be delivered to the Secretary at Capital Gold's principal executive offices not less than ninety (90) nor more than one hundred twenty (120) days prior to the date of the meeting; provided, however, that in the event that the annual meeting date is publicly disclosed less than one hundred twenty (120) days prior to the date of the meeting, the stockholders' notice, in order to be timely, must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was publicly disclosed. All such stockholders must be stockholders of record on both the date such stockholders provide notice of their proposals and on the record date for the determination of stockholders entitled to vote at such meeting. In addition, all stockholder proposals must contain all of the information required under our Amended and Restated By-laws, a copy of which is available upon written request, at no charge, from the

Secretary at our New York office. Capital Gold reserves the right to reject, rule out of order, or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

183

DELIVERY OF MATERIALS TO STOCKHOLDERS WITH SHARED ADDRESSES

Stockholders who own their shares through a broker, bank or other nominee and who share an address with another such beneficial owner are only being sent one set of proxy materials, unless such holders have provided contrary instructions. If you wish to receive a separate copy of these materials or if you are receiving multiple copies and would like to receive a single copy, please contact investor relations by phone at (212) 344-2785 or write to us at Capital Gold Corporation, 76 Beaver Street, 14th floor, New York, New York 10005.

WHERE YOU CAN FIND MORE INFORMATION

This joint proxy statement/prospectus forms part of a registration statement on Form S-4 filed by Capital Gold with the U.S. Securities and Exchange Commission (the "SEC"). It constitutes a prospectus of Capital Gold under Section 5 of the Securities Act or 1933, as amended (the "Securities Act") and the rules thereunder, with respect to the common stock and convertible securities of Capital Gold to be issued or issuable to holders of securities of Nayarit in the Business Combination. In addition, it constitutes a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules thereunder, and a notice of special meeting, with respect to a meeting of the stockholders of Capital Gold to consider and vote upon the Business Combination. It also constitutes proxy statement of Nayarit in compliance with the rules of the Ontario Business Corporations Act and a notice of special meeting, with respect to a meeting of the stockholders of Nayarit to consider and vote upon the Business Combination.

Capital Gold has supplied all information contained in or incorporated by reference into this joint proxy statement/prospectus relating to Capital Gold, all pro forma financial information and all information related to the operation of the combined company following the merger. Nayarit has supplied all information contained in this joint proxy statement/prospectus relating to Nayarit and its properties.

Capital Gold files reports, proxy statements, and other information with the SEC. You may inspect or copy these materials at the Public Reference Room at the SEC at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC public reference room. Capital Gold's public filings are also available to the public from commercial document retrieval services and at the Internet web site maintained by the SEC at http://www.sec.gov.

Nayarit's public filings are available at www.sedar.com.

When deciding how to cast your vote, you should rely only on the information contained in this joint proxy statement/prospectus and, if you are a Nayarit stockholder, the Nayarit Supplement which will accompany this joint proxy statement/prospectus. We have not authorized anyone to provide you with information that is different from what is contained in this joint proxy statement/prospectus. This joint proxy statement/prospectus is dated [ ], 2010. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this joint proxy statement/prospectus to stockholders nor the issuance of Capital Gold's common stock shall create any implication to the contrary.

This joint proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this joint proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction. Neither the delivery of this joint proxy statement/prospectus nor any distribution of securities pursuant to this joint proxy statement/prospectus, under any circumstances, creates any implication that there has been no change in the information set forth or incorporated into this joint proxy statement/prospectus by reference or in our affairs since the date of this joint proxy statement/prospectus. The information contained in this joint proxy statement/prospectus with respect to Capital Gold was provided by Capital Gold and the information contained in this joint proxy statement/prospectus with respect to Nayarit was provided by Nayarit.

You can obtain additional information about Capital Gold or Nayarit by requesting such information from the appropriate company at the following addresses and telephone numbers:

CAPITAL GOLD CORPORATION	NAYARIT GOLD INC.
76 Beaver Street, 14th Floor	76 Temple Terrace, Suite 150
New York, NY 10005	Lower Sackville, Nova Scotia B4C 0A7
Tel: (212) 344-2785	Tel: 902 252-3833
Attn: Investor Relations	Attn: Investor Relations

184

INDEX TO FINANCIAL STATEMENTS

CAPITAL GOLD CORPORATION

NAYARIT GOLD INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Capital Gold Corporation and Subsidiaries ("the Company") as of July 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended July 31, 2009. We also have audited Capital Gold Corporation and Subsidiaries' internal control over financial reporting as of July 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital Gold Corporation and Subsidiaries as of July 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Capital Gold Corporation and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of July 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

WOLINETZ, LAFAZAN & COMPANY, P.C.

Rockville Centre, New York
October 12, 2009

F1-1

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

	July 31, 2009	July 31, 2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	$ 6,448	$ 10,992
Accounts Receivable (Note 2)	2,027	1,477
Stockpiles and Ore on Leach Pads (Note 5)	20,024	12,176
Material and Supply Inventories (Note 4)	1,381	937
Deposits (Note 6)	26	9
Marketable Securities (Note 3)	35	65
Prepaid Expenses	277	219
Loans Receivable – Affiliate (Note 11 and 13)	33	39
Other Current Assets (Note 7)	1,042	490
Total Current Assets	31,293	26,404
Mining Concessions (Note 10)	51	59
Property & Equipment – net (Note 8)	22,417	20,918
Intangible Assets – net (Note 9)	318	181
Other Assets:		
Deferred Financing Costs (Note 16)	424	599
Mining Reclamation Bonds	-	82
Deferred Tax Asset (Note 21)	32	573
Security Deposits	66	63
Total Other Assets	522	1,317
Total Assets	$ 54,601	$ 48,879
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 988	$ 788
Accrued Expenses (Note 20)	1,633	2,673
Derivative Contracts (Note 19)	193	930
Deferred Tax Liability (Note 21)	4,233	2,063
Current Portion of Long-term Debt (Note 16)	3,600	4,125
Total Current Liabilities	10,647	10,579
Reclamation and Remediation Liabilities (Note 12)	1,594	1,666
Other liabilities	78	62
Long-term Debt (Note 16)	4,400	8,375
Total Long-term Liabilities	6,072	10,103
Commitments and Contingencies (Note 22)	-	-
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share; Authorized 300,000,000 shares; Issued and Outstanding 193,855,555 and 192,777,326 shares, respectively	19	19

Additional Paid-In Capital	64,057	63,074
Accumulated Deficit	(22,089)	(32,496)
Deferred Financing Costs (Note 16)	(1,808)	(2,611)
Deferred Compensation	(319)	(549)
Accumulated Other Comprehensive Income (Note 13)	(1,978)	760
Total Stockholders' Equity	37,882	28,197
Total Liabilities and Stockholders' Equity	$ 54,601	$ 48,879

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

F1-2

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

	For The Year Ended July 31, 2009	2008	2007
Revenues			
Sales – Gold, net	$ 42,757	$ 33,104	$ -
Costs and Expenses:			
Costs Applicable to Sales	13,883	10,690	-
Depreciation and Amortization	3,019	3,438	891
General and Administrative	5,464	5,586	2,893
Exploration	1,600	938	1,816
Total Costs and Expenses	23,966	20,652	5,600
Income (Loss) from Operations	18,791	12,452	(5,600)
Other Income (Expense):			
Interest Income	43	77	146
Interest Expense	(597)	(1,207)	(792)
Other Income (Expense)	(313)	(95)	-
Loss on change in fair value of derivative	(1,975)	(1,356)	(1,226)
Total Other Income (Expense)	(2,842)	(2,581)	(1,872)
Income (Loss) before Income Taxes	15,949	9,871	(7,472)
Income Tax Expense (Note 21)	(5,542)	(3,507)	-
Net Income (Loss)	$ 10,407	$ 6,364	$ (7,472)
Income (Loss) Per Common Share			
Basic	$ 0.05	$ 0.04	$ (0.05)
Diluted	$ 0.05	$ 0.03	$ -
Basic Weighted Average Common Shares Outstanding	193,260,465	175,039,996	149,811,266
Diluted Weighted Average Common Shares Outstanding	199,531,079	195,469,129	-

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

F1-3

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

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

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

F1-4

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

	Common Stock Shares	Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2007	168,173,148	$ 17	$ 54,016	$ (38,860)	$ 304	$ (3,438)	$ (52)	$ 11,987
Amortization of deferred finance costs	-	-	-	-	-	930	-	930
Equity based compensation	-	-	433	-	-	-	194	627
Common stock issued upon the exercising of options and warrants	22,994,178	2	7,471					7,473
Issuance of restricted common stock	1,610,000	-	1,051				(691)	360
Deferred finance costs	-	-	103	-	-	(103)	-	-
Net income for the year ended July 31, 2008	-	-	-	6,364	-	-	-	6,364
Change in fair value on interest rate swaps	-	-	-	-	(141)	-	-	(141)
Unrealized loss on marketable securities	-	-	-	-	(25)	-	-	(25)
Equity adjustment from foreign currency translation	-	-	-	-	622	-	-	622
Total comprehensive income	-	-	-	-	-	-	-	6,820
Balance at July 31, 2008	192,777,326	$ 19	$ 63,074	$ (32,496)	$ 760	$ (2,611)	$ (549)	$ 28,197

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

F1-5

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

	Common Stock Shares	Common Stock Amount	Additional paid-in-capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2008	192,777,326	$ 19	$ 63,074	$ (32,496)	$ 760	$ (2,611)	$ (549)	$ 28,197
Amortization of deferred finance costs	-	-	-	-	-	803	-	803
Equity based compensation	-	-	551	-	-	-	230	781
Common stock issued upon the exercising of options and warrants	855,729	-	319	-	-	-	-	319
Issuance of restricted common stock	222,500	-	113				-	113
Net income for the year ended July 31, 2009	-	-	-	10,407	-	-	-	10,407
Change in fair value on interest rate swaps	-	-	-	-	23	-	-	23
Unrealized loss on marketable securities	-	-	-	-	(30)	-	-	(30)
Equity adjustment from foreign currency translation	-	-	-	-	(2,731)	-	-	(2,731)
Total comprehensive income	-	-	-	-	-	-	-	7,670
Balance at July 31, 2009	193,855,555	$ 19	$ 64,057	$ (22,089)	$ (1,978)	$ (1,808)	$ (319)	$ 37,882

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

F1-6

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

	For The Year Ended July 31, 2009	2008	2007
Cash Flow From Operating Activities:			
Net Income (Loss)	$ 10,407	$ 6,364	$ (7,472)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	3,019	3,388	891
Accretion of Reclamation and Remediation	156	124	31
Loss on change in fair value of derivative	1,975	1,356	1,226
Equity Based Compensation	894	987	492
Changes in Operating Assets and Liabilities:			
Increase in Accounts Receivable	(550)	(1,477)	-
Increase in Prepaid Expenses	(58)	(146)	(32)
Increase in Inventory	(6,786)	(8,913)	(2,458)
Decrease (Increase) in Other Current Assets	(553)	1,185	2,975
Decrease (Increase) in Other Deposits	(17)	870	(629)
Increase in Other Assets	(3)	-	(50)
Decrease (Increase) in Mining Reclamation Bond	82	(46)	-
Decrease (Increase) in Deferred Tax Asset	541	(573)	-
Increase in Accounts Payable	200	171	358
Decrease in Derivative Liability	(2,689)	(1,166)	(460)
Increase (Decrease) in Reclamation and Remediation	(228)	-	1,218
Increase in Other Liability	16	62	
Increase in Deferred Tax Liability	2,170	2,063	
Increase (Decrease) in Accrued Expenses	(1,040)	2,069	247
Net Cash Provided By (Used in) Operating Activities	7,536	6,318	(3,663)
Cash Flow From Investing Activities:			
Decrease (Increase) in Other Investments	-	28	(4)
Purchase of Mining, Milling and Other Property and Equipment	(4,994)	(5,417)	(17,851)
Purchase of Intangibles	(180)	(90)	(570)
Net Cash Used in Investing Activities	(5,174)	(5,479)	(18,425)

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

F1-7

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

	For The Year Ended July 31, 2009	2008	2007
Cash Flow From Financing Activities:			
Proceeds from (Advances) to Affiliate, net	$ 6	$ 7	$ (5)
Proceeds from Borrowing on Credit Facility	-	-	12,500
Repayments on Credit Facility	(4,500)	-	-
Proceeds From Issuance of Common Stock	319	7,474	9,129
Deferred Finance Costs	-	(175)	(257)
Net Cash (Used in)Provided By Financing Activities	(4,175)	7,306	21,367
Effect of Exchange Rate Changes	(2,731)	622	205
Increase (Decrease) In Cash and Cash Equivalents	(4,544)	8,767	(516)
Cash and Cash Equivalents - Beginning	10,992	2,225	2,741
Cash and Cash Equivalents – Ending	$ 6,448	$ 10,992	$ 2,225
Supplemental Cash Flow Information:			
Cash Paid For Interest	$ 647	$ 1,235	$ 879
Cash Paid For Income Taxes	$ 4,213	$ 1,373	$ 23
Non-Cash Financing Activities:			
Issuance of common stock and warrants as payment of financing costs	$ -	$ 103	$ 3,665
Change in Fair Value of Derivative Instrument	$ 23	$ 141	$ 47
Change in Fair Value of Asset Retirement Cost	$ 222	$ 293	$ -

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

F1-8

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

NOTE 1 - Basis of Presentation

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

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

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

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

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

Explanation of Responses:

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

NOTE 2 - Summary of Significant Accounting Policies

Principals of Consolidation

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Marketable Securities

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

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

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

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

Ore on Leach Pads

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

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

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

In-process Inventory

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

Precious Metals Inventory

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

Materials and Supplies

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

Property, Plant and Mine Development

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

F1-11

Explanation of Responses:

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

Impairment of Long-Lived Assets

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

Reclamation and Remediation Costs (“Asset Retirement Obligations”)

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

Deferred Financing Costs

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

Intangible Assets

Purchased intangible assets consisting of rights of way, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is the Company’s policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2009.

F1-12

Fair Value of Financial Instruments

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

Long-term Debt

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

Revenue Recognition

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

Revenues from by-product sales, which consists of silver, will be credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $1,076, $707 and $0 for the fiscal years ended July 31, 2009, 2008 and 2007, respectively.

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

Income Taxes

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

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

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

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

Equity Based Compensation

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

Such options and warrants may be exercisable at varying exercise prices currently ranging from $0.35 to $0.85 per share of common stock. Certain of these grants are exercisable immediately upon grant while others vest. Certain grants have vested or are vesting over a period of five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

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

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

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the fiscal years ended July 31, 2009, 2008 and 2007 were $0.29, $0.34 and $0.33, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

F1-14

	Year ended July 31,		
	2009	2008	2007
Expected volatility	69.98 – 79.72%	47.60 – 60.88%	73%
Risk-free interest rate	0.86 – 1.56%	4.61%	5.75%
Expected dividend yield	-	-	-
Expected life	2 - 5 years	5.5 years	2.4 years

Stock option and activity for employees during the fiscal years ended July 31, 2009, 2008 and 2007 are as follows (all tables in thousands, except for option, price and term data):

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2006	5,570,454	$ .16	-	$ 702
Options granted	1,050,000	.36	-	-
Options exercised	(3,570,909)	.08	-	-
Options expired	(549,545)	.22	-	-
Outstanding at July 31, 2007	2,500,000	$ .34	1.20	$ 255
Options granted*	2,500,000	.63	-	-
Options exercised	(1,450,000)	.32	-	-
Options expired	-	-	-	-
Outstanding at July 31, 2008	3,550,000	$ .55	4.00	$ 334
Options granted*	1,000,000	.49	-	-
Options exercised	(705,729)	.37	-	-
Options expired	(344,271)	.35	-	-
Options outstanding at July 31, 2009	3,500,000	$ .59	5.18	$ 70
Options exercisable at July 31, 2009	1,750,000	$ .59	2.18	$ 35

* Issuances under 2006 Equity Incentive Plan.

F1-15

Unvested stock option balances for employees at July 31, 2009, 2008 and 2007 are as follows:

	Number of Options		Weighted average exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Outstanding at July 31, 2006	150,000	$	.32	1.67		17
Options granted	-		-	-		-
Outstanding at July 31, 2007	150,000	$	.32	1.67	$	17
Options granted	2,500,000		.63	-		-
Options vested	(900,000)		.58	-		-
Unvested Options Outstanding at July 31, 2008	1,750,000	$	.63	4.49	$	8
Options granted	1,000,000		.49	-		-
Options vested	(1,000,000)		.56	-		-
Unvested Options outstanding at July 31, 2009	1,750,000	$	.59	5.18	$	35

F1-16

Stock option and warrant activity for non-employees during the years ended July 31, 2009, 2008 and 2007 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2006	25,561,000	$ .29	1.33	$ 1,940
Options granted	16,982,542	.33		
Options exercised	(18,633,000)	.29	-	-
Options expired	(1,375,000)	.31	-	-
Warrants and options outstanding at July 31, 2007	22,535,542	$ .33	1.48	$ 2,578
Options granted*	1,715,000	.66		
Options exercised	(21,555,542)	.33	-	-
Options expired	(680,000)	.30	-	-
Warrants and options outstanding at July 31, 2008	2,015,000	$ .62	3.54	$ 54
Options granted	1,400,000	.50	-	-
Options exercised	(150,000)	.39	-	-
Options expired	(150,000)	.39	-	-
Warrants and options outstanding at July 31, 2009	3,115,000	$ .59	3.36	$ 73
Warrants and options exercisable at July 31, 2009	2,152,500	$ .61	1.41	$ 3

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

F1-17

Unvested stock option balances for non-employees at July 31, 2009, 2008 and 2007 are as follows:

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Outstanding at July 31, 2006	-	$	-	-	$	-
Options granted	-		-	-		-
Options vested	-		-	-		-
Outstanding at July 31, 2007	-	$	-	-	$	-
Options granted	650,000		.63	-		-
Options vested	(195,000)		.63	-		-
Unvested options outstanding at July 31, 2008	455,000		.63	4.49	$	3
Options granted	1,275,000		.49			
Options vested	(767,500)		.51	-		-
Unvested options outstanding at July 31, 2009	962,500	$	.54	4.88	$	70

The impact on the Company's results of operations of recording equity based compensation for the fiscal years ended July 31, 2009, 2008 and 2007, for employees and non-employees was approximately $894, $987 and $492 and reduced earnings per share by $0.01, $0.01 and $0.00 per basic and diluted share, respectively. The Company has not recognized any tax benefit or expense for the fiscal years ended July 31, 2009, 2008 and 2007, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 22).

As of July 31, 2009, 2008 and 2007, there was approximately $792, $686 and $53, respectively, of unrecognized equity based compensation cost related to options granted to executives and employees which have not yet vested.

Reclassifications

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

Net Loss Per Common Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants, which amounted to 25,035,542 shares, is excluded from the calculation of diluted net loss per share for the fiscal year ended July 31, 2007 since its effect would be anti-dilutive.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents and marketable securities. The Company maintains cash balances at financial institutions which exceed the current Federal Deposit Insurance Corporation limit of $200,000 at times during the year.

Accounting for Derivatives and Hedging Activities

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

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

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

Fair Value Accounting

In September 2006, the FASB issued FASB Statement No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 were adopted January 1, 2009. In February 2008, the FASB staff issued FSP No. 157-2 “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”). FSP FAS 157-2 delayed the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP FAS 157-2 are effective for companies beginning January 1, 2009, and are not expected to have a significant impact on the Company.

In October 2008, the FASB issued FSP No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (“FSP FAS 157-3”), which clarifies the application of FAS 157 in an inactive market. The intent of FSP FAS 157-3 is to provide guidance on how the fair value of a financial asset is to be determined when the market for that financial asset is inactive. FSP FAS 157-3 states that determining fair value in an inactive market depends on the facts and circumstances requires the use of significant judgment and, in some cases, observable inputs may require significant adjustment based on unobservable data. Regardless of the valuation technique used, an entity must include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when determining fair value of an asset in an inactive market. FSP FAS 157-3 was effective upon issuance. The Company has incorporated the principles of FSP FAS 157-3 in determining the fair value of financial assets when the market for those assets is not active.

FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

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

The following table sets forth the Company’s financial assets and liabilities measured at fair value by level within the fair value hierarchy. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at July 31, 2009 (in thousands)			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 3,334	$ 3,334	$ -	$ -
Marketable securities	35	35	-	-

	$	3,369	$	3,369	$	-	$	-
Liabilities:								
Interest rate swap		193		-		193		-
	$	193	$	-	$	193	$	-

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

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

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

In April 2009, the FASB issued Staff Position No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"), which provides additional guidance on determining fair value when the volume and level of activity for an asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate when a transaction is not orderly. In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"), which: 1) clarifies the interaction of the factors that should be considered when determining whether a debt security is other than temporarily impaired, 2) provides guidance on the amount of an other-than-temporary impairment recognized in earnings and other comprehensive income and 3) expands the disclosures required for other-than-temporary impairments for debt and equity securities. Also in April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"), which requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. Adoption of these Staff Positions is required for the Company's interim reporting period beginning April 1, 2009 with early adoption permitted. The Company adopted the provisions of FSP FAS 157-4, FSP FAS 115-2 and FAS 124-2, and FSP FAS 107-1 and APB 28-1 for the interim period ended April 30, 2009. The adoption of this standard did not have a material impact on the financial condition or the results of the Company's operations.

Fair Value Option

In February 2007, the FASB issued FASB Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value, with the objective of improving financial reporting by mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of FAS 159 were adopted January 1, 2009. The Company did not elect the Fair Value Option for any of its financial assets or liabilities, and therefore, the adoption of FAS 159 had no impact on the Company's consolidated financial position, results of operations or cash flows.

Derivative Instruments

In March 2008, the FASB issued FASB Statement No. 161, "Disclosure about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133" ("FAS 161") which provides revised guidance for enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and the related hedged items are accounted for under FAS 133, and how derivative instruments and the related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 is effective and was adopted for the Company's fiscal year ended July 31, 2008.

Accounting for the Useful Life of Intangibles

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP 142-3") which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141, "Business Combinations" ("FAS 141"). FSP 142-3 is effective for the Company's fiscal year beginning August 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. The Company does not expect the adoption of FSP 142-3 to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Business Combinations

In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141(R)-1"), which amends and clarifies FAS 141(R). The intent of FSP FAS 141(R)-1 is to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The Company will apply the provisions of FSP FAS 141(R)-1 to all future business combinations.

Equity Method Investment

In November 2008, the Emerging Issues Task Force ("EITF") reached consensus on Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"), which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. The intent of EITF 08-6 is to provide guidance on (i) determining the initial measurement of an equity method investment, (ii) recognizing other-than-temporary impairments of an equity method investment and (iii) accounting for an equity method investee's issuance of shares. EITF 08-6 was effective for the Company's fiscal year beginning August 1, 2009 and has been applied prospectively. The adoption of EITF 08-6 had no impact on the Company's consolidated financial position or results of operations.

Equity-linked Financial Instruments

In June 2008, the EITF reached consensus on Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). EITF 07-5 was effective for the Company's fiscal year beginning August 1, 2009. The adoption of EITF 07-5 had no impact on the Company's consolidated financial position or results of operations.

Subsequent Events

In May 2009, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 165 "Subsequent Events" ("FAS 165") which establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet in its financial statements, and (iii) the disclosures that an entity should make about events or transactions occurring after the balance sheet date in its financial statements. The Company adopted the provisions of FAS 165 for the interim period ended June 30, 2009. The adoption of FAS 165 had no impact on the Company's consolidated financial position, results of operations or cash flows.

F1-22

Variable Interest Entities

In June 2009, the FASB issued FASB Statement No. 167, “Amendments to FASB Interpretation No. 46(R)” (“FAS 167”), which requires an entity to perform a qualitative analysis to determine whether the enterprise’s variable interest gives it a controlling financial interest in a variable interest entity (“VIE”). This analysis identifies a primary beneficiary of a VIE as the entity that has both of the following characteristics: i) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and ii) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE. FAS 167 also amends FIN 46(R) to require ongoing reassessments of the primary beneficiary of a VIE. The provisions of FAS 167 are effective for the Company’s fiscal year beginning January 1, 2010. The Company currently accounts for Caborca Industrial (“CI”) as a VIE and is evaluating the potential impact of adopting this statement on the Company’s consolidated financial position, results of operations and cash flows.

The Accounting Standards Codification

In June 2009, the FASB issued FASB Statement No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (“FAS 168” or “the Codification”). FAS 168 will become the source of authoritative U.S. GAAP to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. FAS 168 is effective for the Company’s interim quarterly period beginning after September 15, 2009. The Company does not expect the adoption of FAS 168 to have an impact on the Company’s consolidated financial position, results of operations or cash flows.

NOTE 3 - Marketable Securities

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

		(in thousands)		
		July 31, 2009		July 31, 2008
Marketable equity securities, at cost	$	50	$	50
Marketable equity securities, at fair value (See Notes 12 & 14)	$	35	$	65

F1-23

NOTE 4 – Material and Supplies Inventories

	(in thousands)	
	July 31, 2009	July 31, 2008
Materials, supplies and other	$ 1,381	$ 937
Total	$ 1,381	$ 937

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

	(in thousands)	
	July 31, 2009	July 31, 2008
Ore on leach pads	$ 20,024	$ 12,176
Total	$ 20,024	$ 12,176

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

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

NOTE 6 – Deposits

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

	(in thousands)	
	July 31, 2009	July 31, 2008
Equipment deposits	$ 26	$ 9
Total Deposits	$ 26	$ 9

F1-24

NOTE 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands) July 31, 2009	July 31, 2008
Value added tax to be refunded	$ 1,032	$ 425
Other	10	65
Total Other Current Assets	$ 1,042	$ 490

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands) July 31, 2009	July 31, 2008
Process equipment and facilities	$ 26,477	$ 21,693
Mining equipment	2,248	974
Mineral properties	175	141
Construction in progress	70	1,277
Computer and office equipment	389	316
Improvements	16	16
Furniture	47	38
Total	29,422	24,455
Less: accumulated depreciation	(7,005)	(3,537)
Property and equipment, net	$ 22,417	$ 20,918

Depreciation expense for the fiscal years ended July 31, 2009, 2008 and 2007 was approximately $3,468, $2,779 and $720, respectively.

NOTE 9 - Intangible Assets

Intangible assets consist of the following:

	(in thousands) July 31, 2009	July 31, 2008
Repurchase of Net Profits Interest	$ 500	$ 500
Water Rights	241	134
Reforestation fee	73	-
Mobilization Payment to Mineral Contractor	70	70
Investment in Right of Way	18	18
Total	902	722
Accumulated Amortization	(584)	(541)
Intangible assets, net	$ 318	$ 181

Purchased intangible assets consisting of rights of way, water rights, easements, net profit interests, etc. are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the UOP method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2009.

On September 13, 2006, the Company repurchased the 5% net profits interest formerly held by Grupo Minera FG ("FG"), and subsequently acquired by Daniel Gutierrez Cibrian, with respect to the operations at the El Chanate mine. That net profits interest had originally been granted to FG in connection with the April 2004 termination of the joint venture agreement between FG and MSR, the Company's wholly owned Mexican subsidiary. FG also received a right of first refusal to carry out the work and render construction services required to effectuate the El Chanate Project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services. FG has assigned or otherwise transferred to MSR all permits, licenses, consents and authorizations (collectively, "authorizations") for which FG had obtained in its name in connection with the development of the El Chanate Project to the extent that the authorizations are assignable. To the extent that the authorizations are not assignable or otherwise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued or re-granted in MSR's name. The foregoing has been completed. The purchase price for the buyback of the net profits interest was $500, and was structured as part of the project costs financed by the loan agreement with Standard Bank. (See Note 17). Mr. Cibrian retained a 1% net profits interest in MSR, payable only after a total US $20 million in net profits has been generated from operations at El Chanate. The Company recorded this transaction on its balance sheet as an intangible asset under guidance provided by FAS 142 – Goodwill and Other Intangible Assets to be amortized over the period of which the asset is expected to contribute directly or indirectly to the Company's cash flow. On March 23, 2007, the Company reacquired the remaining 1% net profits interest (see Note 18).

The Right of Way, Water Rights, Reforestation Fee and the Mobilization Payment were recorded at cost and are being amortized using the units of production method. Amortization expense for the year ended July 31, 2009, 2008 and 2007 was approximately $43, $530 and $7, respectively. The net profits interest from FG was fully amortized as of July 31, 2008.

NOTE 10 - Mining Concessions

Mining concessions consists of the following:

	(in thousands) July 31, 2009	July 31, 2008
El Chanate	$ 45	$ 45
El Charro	25	25
Total	70	70
Less: accumulated amortization	(19)	(11)
Total	$ 51	$ 59

The El Chanate concessions are carried at historical cost and are being amortized using the units of production method. They were acquired in connection with the purchase of the stock of Minera Chanate (see Note 1). Amortization expense for the years ended July 31, 2009, 2008 and 2007 was approximately $8, $8 and $3, respectively.

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

NOTE 11 - Loans Receivable - Affiliate

Loans receivable - affiliate consist of expense reimbursements due from a publicly-owned corporation in which the Company has an investment. The Company's chairman of the board of directors and chief executive officer was an officer and director of that corporation. On March 10, 2008, the Company's chairman of the board of directors resigned as both an officer and director of this corporation. These loans are non-interest bearing and due on demand (see Note 3 & 14).

F1-26

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

The Company includes environmental and reclamation costs on an ongoing basis, in our internal revenue and cost projections. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect the Company’s planned operations. As of July 31, 2009, we estimated the reclamation costs for the El Chanate site to be approximately $2,950. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of July 31, 2009. As of July 31, 2009 and 2008, approximately $1,594 and $1,666, respectively, was accrued for reclamation obligations relating to mineral properties in accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations.”

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the years ended July 31, 2009 and 2008:

		(in thousands)
Balance as of July 31, 2007	$	1,249
Additions, changes in estimates and other		293
Liabilities settled		-
Accretion expense		124
Balance as of July 31, 2008	$	1,666
Additions, changes in estimates and other		(184)
Liabilities settled		(44)
Accretion expense		156
Balance as of July 31, 2009	$	1,594

NOTE 13 – Accumulated Other Comprehensive Income

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

		Foreign currency items		Unrealized gain (loss) on securities		Change in fair value on interest rate swaps		Accumulated other comprehensive income
Balance as of July 31, 2006	$	106	$	40	$	-	$	146
Income (loss)		(47)		-		205		158
Balance as of July 31, 2007	$	59	$	40	$	205	$	304
Income (loss)		622		(25)		(141)		456
Balance as of July 31, 2008		681		15		64		760
Income (loss)		(2,731)		(30)		23		(2,738)
Balance as of July 31, 2009	$	(2,050)	$	(15)	$	87	$	(1,978)

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the years ended July 31, 2009, 2008 and 2007.

NOTE 14 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately $6, $6 and $9 in expense reimbursements including office rent from this entity for the years ended July 31, 2009, 2008 and 2007, respectively (see Notes 3 and 11).

The Company utilizes Caborca Industrial, a Mexican corporation that is 100% owned by Gifford A. Dieterle, the Company's Chief Executive Officer, and Jeffrey W. Pritchard, the Company's former Executive Vice President, for mining support services. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately $4,767, $3,775 and $702 for the year ended July 31, 2009, 2008 and 2007, respectively.

During the years ended July 31, 2009, 2008 and 2007, the Company paid Jack Everett, its former Vice President Exploration and Director, consulting fees of $0, $100 and $0, respectively. In addition, this individual earned wages of $120 during the years ended July 31, 2007. During the years ended July 31, 2009, 2008 and 2007, the Company paid Robert Roningen, a director, legal and consulting fees of $8, $35 and $24, respectively.

NOTE 15 - Stockholders' Equity

Common Stock

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

The Company issued 1,150,000 shares of common stock and 12,600,000 common stock purchase warrants to Standard Bank as part of a commitment fee to entering into the credit facility on August 15, 2006, with its wholly-owned subsidiaries MSR and Oro. The Company recorded the issuance of the 1,150,000 shares of common stock and 12,600,000 warrants as deferred financing costs of approximately $351 and $3,314, respectively, as a reduction of stockholders' equity on the Company's balance sheet. The issuance of 1,150,000 shares was recorded at the fair market value of the Company's common stock at the closing date or $0.305 per share. The warrants were valued at approximately $3,314 using the Black-Scholes option pricing model and were reflected as deferred financing costs as a reduction of stockholders' equity on the Company's balance sheet (See Note 17). The balance of deferred financing costs, net of amortization, as of July 31, 2009 and 2008, as a reduction of stockholders' equity, was approximately $1,808 and $2,611. Amortization expense for the years ended July 31, 2009, 2008 and 2007, was approximately $803, $930 and $750, respectively.

The Company closed two private placements in January 2007 pursuant to which it issued an aggregate of 12,561,667 units, each unit consisting of one share of its common stock and a warrant to purchase ¼ of a share of its common stock at $0.30 per unit for proceeds of approximately $3,486, net of commissions of approximately $283. Each warrant issued in the January 2007 placements is exercisable for ¼ of a share of common stock, at an exercise price equal to $0.40 per share. Thus, a holder must exercise four warrants to purchase one share of common stock. Each warrant has a term of eighteen months and is fully exercisable from the date of issuance. The Company issued to the placement agents eighteen month warrants to purchase up to an aggregate of 942,125 shares of common stock at an exercise price of $0.30 per share. Such placement agent warrants are valued at approximately $142 using the Black-Scholes option pricing method.

F1-28

The Company also received proceeds of approximately $319, $7,473 and $5,643 during the years ended July 31, 2009, 2008 and 2007, from the exercising of an aggregate of 855,729, 22,994,178 and 22,203,909 of warrants and options, respectively, issued to investors in past private placements, to officers and directors as well as to outside parties for services rendered.

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

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

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

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

During the year ended July 31, 2009, the Company issued 222,500 restricted shares to employees under its 2006 Equity Incentive Plan. The restricted shares granted vested immediately. The fair value of the Company's stock ranged from $0.34 to $0.52 on the date of grant resulting in the Company recording approximately $113 in equity compensation expense.

Recapitalization

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

Stock Split

In September 2008, our Board of Directors (the "Board") recommended to our stockholders a proposal to effect a reverse stock split of all outstanding shares of our Common Stock in an amount which our Board of Directors deems appropriate to result in a sustained per share market price above $2.00 per share, to be at a ratio of not less than one-for-four and not more than one-for-six (the "Reverse Stock Split"). In conjunction with the Reverse Stock Split, our Board has approved and is recommending to our stockholders a proposal to effect a reduction in the number of shares of Common Stock authorized for issuance and an increase in the par value thereof in proportion to the Reverse Stock Split. Our stockholders subsequently approved the reverse stock split in October 2008. We will not issue fractional shares in connection with the Reverse Stock Split. Any fractional shares that result from the Reverse Stock Split will be rounded up to the next whole share. However, if the Board determines that effecting these capitalization changes would not be in the best interests of our stockholders, the Board can determine not to effect any or all of the changes. As of July 31, 2009, the board of directors has not affected a capitalization change.

Warrants and Options

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

On November 30, 2006, the Company's board of directors granted 100,000 common stock options to each of John Postle, Ian A. Shaw and Mark T. Nesbitt, the Company's independent directors. The options are to purchase shares of the Company's common stock at an exercise price of $0.33 per share (the closing price of its common stock on that date) for a period of two years. The Company utilized the Black-Scholes Method to fair value the 300,000 options received by the directors and recorded approximately $40 as equity based compensation expense. The grant date fair value of each stock option was $0.13.

On December 13, 2006, the Company issued two year options to purchase the Company's common stock at an exercise price of $0.36 per share to its Chief Operating Officer, Chief Financial Officer and the Company's Canadian counsel. These options are for the purchase of 250,000 shares, 100,000 shares and 100,000 shares, respectively. The Company utilized the Black-Scholes Method to fair value the 450,000 options received by these individuals and recorded approximately $61 as stock based compensation expense. The grant date fair value of each stock option was $0.14.

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

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

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

F1-30

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

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

On November 1, 2008, the Company issued stock options with a two year term to purchase the Company's common stock at an exercise price of $0.65 per share to an investor relations firm for services provided. These options are for the purchase of 100,000 shares. The Company utilized the Black-Scholes Method to fair value the 100,000 options received by this firm and recorded approximately $6 as equity based compensation expense. The grant date fair value of each stock option was $0.06.

On December 3, 2008, the Company issued stock options with a two year term to purchase the Company's common stock at an exercise price of $0.35 per share to its then securities counsel. These options are for the purchase of 25,000 shares. The Company utilized the Black-Scholes Method to fair value the 25,000 options received by these individuals and recorded approximately $4 as equity based compensation expense. The grant date fair value of each stock option was $0.16.

On January 20, 2009, at the recommendation of the Compensation Committee and on the approval by the Board of Directors, the Company's executive officers and directors were granted 2,275,000 stock options under our 2006 Equity Incentive Plan as incentive compensation. The stock options were awarded as follows: Gifford Dieterle – 500,000, John Brownlie – 500,000, Jeffrey Pritchard – 500,000, Christopher Chipman – 250,000, Scott Hazlitt – 250,000, Ian Shaw – 75,000, John Postle – 50,000, Mark T. Nesbitt – 50,000, Roger Newell -50,000 and Robert Roningen – 50,000. The stock options have a term of five years and vest as follows: one-third vested upon issuance and the balance vest on a one-third basis annually thereafter. The exercise price of the stock options is $0.49 per share (per the Plan, the closing price on the Toronto Stock Exchange on the trading day immediately prior to the day of determination converted to U.S. Dollars). In the event of a termination of continuous service (other than as a result of a change of control, as defined in the Plan), unvested stock options shall terminate and, with regard to vested stock options, the exercise period shall be the lesser of the original expiration date or one year from the date continuous service terminates. Upon a change of control, all unvested stock options and unvested restricted stock grants immediately vest. The Company utilized the Black-Scholes method to fair value the 2,275,000 options received by these individuals totaling $647. The grant date fair value of each stock option was $0.29.

F1-31

2006 Equity Incentive Plan

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

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

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

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

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

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

F1-32

Information regarding the options approved by the Compensation Committee under the Equity Incentive Plan for the fiscal years ended July 31, 2009, 2008 and 2007 is summarized below:

	2007			2008			2009		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price
Outstanding beginning at year	-	$ -	$ -	1,050,000	$ 0.36-0.45	$ 0.38	4,665,000	$ 0.36-0.45	$ 0.38
Granted	1,050,000	0.36-0.45	$ 0.38	3,615,000	0.38-0.63	$ 0.61	2,400,000	0.35-0.65	$ 0.50
Canceled	-	-	-	-	-	-	(344,271)	-	-
Exercised	-	-	-	-	-	-	(705,729)	-	-
Outstanding end of year	1,050,000	$ 0.36-0.45	$ 0.38	4,665,000	$ 0.36-0.63	$ 0.56	6,015,000	$ 0.35-0.65	$ 0.56
Exercisable	1,050,000	$ 0.36-0.45	$ 0.38	3,360,000	$ 0.36-0.63	$ 0.54	3,902,500	$ 0.35-0.65	$ 0.60
Weighted average remaining contractual life (years)	1-2 years	-	-	5-6 years	-	-	4-5 years	-	-
Available for future grants	8,450,000	-	-	3,225,000	-	-	602,500	-	-

Restricted stock awards granted by the Compensation Committee under the Equity Incentive Plan for the fiscal years ended July 31, 2009, 2008 and 2007, were 222,500, 500,000 and 1,610,000 shares, respectively.

NOTE 16 - Debt

Long term debt consists of the following: (in thousands)

	July 31, 2009	July 31, 2008
Total long-term debt	$ 8,000	$ 12,500
Less current portion	3,600	4,125
Long-term debt	$ 4,400	$ 8,375

F1-33

In September 2008, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") involving our wholly owned Mexican subsidiaries MSR and Oro, as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank, as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006 (the "Original Agreement"). Under the Original Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to US$12,500 (the "Term Loan") for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of July 31, 2009 and 2008, the accrued interest on this facility was approximately $21 and $72, respectively.

The Credit Agreement also established a new senior secured revolving credit facility that permits the Borrowers to borrow up to $5,000 during the one year period after the closing of the Credit Agreement. Term Loan principal shall be repaid quarterly commencing on September 30, 2008 and consists of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. There was no amount outstanding on the revolving credit facility as of July 31, 2009. Principal under the Term Loan and the credit facility shall bear interest at a rate per annum equal to the LIBO Rate plus 2.5% and 2.0% per annum, respectively.

The Credit Facility contains covenants customary for a term note, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, declaring or paying dividends, disposing of any assets, merging with other companies and making any investments. The Company is required to meet and maintain certain financial covenants, including (i) a ratio of current assets to current liabilities at all times greater than or equal to 1.20:1.00, (ii) a quarterly minimum tangible net worth at all times of at least U.S.$15,000, and (iii) a quarterly average minimum liquidity of U.S.$500.

As of July 31, 2009, the Company and its related entities were in compliance with all debt covenants and default provisions. The accounts of Caborca Industrial are not subject to the debt covenants and default provisions.

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

In March 2006, the Company entered into a gold price protection arrangement to protect it against future fluctuations in the price of gold and interest rate swap agreements in October 2006 in accordance with the terms of the credit arrangements with Standard Bank (See Note 19 for more details on these transactions).

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

Fiscal Years Ending July 31,

2010	$	3,600
2011		3,600
2012		800
	$	8,000

NOTE 17 – Mining, Engineering and Supply Contracts

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

Contractor a formal "Notice of Award".

F1-34

On August 2, 2006, the Company amended the November 24, 2005 Mining Contract between its subsidiary, MSR, and Sinergia. Pursuant to the amendment, MSR's right to deliver the notice to Proceed to Sinergia was extended to November 1, 2006. Provided that this Notice was delivered to Sinergia on or before that date, with a specified date of commencement of the Work (as defined in the contract) not later than February 1, 2007, the mining rates set forth in the Mining Contract would still apply; subject to adjustment for the rate of inflation between September 23, 2005 and the date of commencement of the work. As consideration for these changes, the Company paid Sinergia $200 of the requisite advance payment discussed below. On November 1, 2006, MSR delivered the Notice of Award specifying January 25, 2007, as the date of commencement of Work. Based on a revised crushing and stacking plan and since MSR is placing the leach pad overliner material both Sinergia and MSR mutually agreed to delay mining until the end of March 2007. Mining of the El Chanate Project initiated on March 25, 2007.

Pursuant to the Mining Contract, Sinergia, using its own equipment, generally is performing all of the mining work (other than crushing) at the El Chanate Project for the life of the mine. MSR delivered to the Contractor a mobilization payment of $70 and the advance payment of $520. The advance payments are recoverable by MSR out of 100% of subsequent payments due to Sinergia under the Mining Contract. Pursuant to the Mining Contract, upon termination, Sinergia would be obligated to repay any portion of the advance payment that had not yet been recouped. Sinergia’s mining rates are subject to escalation on an annual basis. This escalation is tied to the percentage escalation in Sinergia’s costs for various parts for its equipment, interest rates and labor. One of the principals of Sinergia is one of the former principals of FG. FG was the Company’s former joint venture partner. As of July 31, 2008, the entire advance payment was recovered by MSR.

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

NOTE 18 - Employee and Consulting Agreements

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

Mr. Dieterle is entitled to a base annual salary of at least $180, Mr. Hazlitt is entitled to a base annual salary of at least $125 and each of the other executives is entitled to a base annual salary of at least $120. Each executive is entitled to a bonus or salary increase in the sole discretion of the board of directors. In addition, Messrs. Dieterle, Newell, Everett and Pritchard each received two year options to purchase an aggregate of 250,000 shares of the Company’s common stock at an exercise price of $0.32 per share (the closing price on July 31, 2006). These options have all been exercised.

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

On May 12, 2006, the Company entered into an employment agreement with John Brownlie, pursuant to which Mr. Brownlie originally served as Vice President Operations. Mr. Brownlie became our Chief Operating Officer in February 2007. Mr. Brownlie serves as Vice President Operations. Mr. Brownlie receives a base annual salary of $150 and is entitled to annual bonuses. Upon his employment, he received options to purchase an aggregate of 200,000 shares of the Company's common stock at an exercise price of $.32 per share. 50,000 options vested immediately and the balance vest upon the Company achieving "Economic Completion" as that term is defined in the Standard Bank Credit Facility (when the Company has commenced mining operations and has been operating at anticipated capacity for 60 to 90 days). The term of the options is two years from the date of vesting. The agreement runs for an initial two year period, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. The Company can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by the Company that is not timely cured, upon 30 days notice. In the event that the Company terminates him without cause or he terminates due to the Company's breach, he will be entitled to certain severance payments. The Company utilized the Black-Scholes method to fair value the 200,000 options received by Mr. Brownlie. The Company recorded approximately $70 as deferred compensation expense as of the date of the agreement and recorded the vested portion or $18 as stock based compensation expense for the year ended July 31, 2006.

As discussed below, these agreements have been amended to provide for salary increases and other items.

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

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

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

Brownlie and the consulting fee increase for Mr. Chipman were retroactive to May 1, 2007 and the salary increase for Mr. Pritchard is retroactive to August 1, 2007.

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

F1-36

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

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

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

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

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

F1-37

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

In conjunction with the employment agreements, the Company's board of directors deeming it essential to the best interests of its stockholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of the company and its stockholders, determined to reinforce and encourage the continued attention and dedication of members of the Company's management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the company, it entered into identical agreements regarding change in control with the executives. Each of the agreements regarding change in control continues through December 31, 2009 (December 31, 2010 for Mr. Hazlitt) and extends automatically to the third anniversary thereof unless the Company gives notice to the executive prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles the executive to change of control benefits, as defined in the agreements and summarized below, upon his termination of employment with the Company during a potential change in control, as defined in the agreements, or after a change in control, as defined in the agreements, when his termination is caused (1) by the Company for any reason other than permanent disability or cause, as defined in the agreement (2) by the executive for good reason as defined in the agreements or, (3) by the executive for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control. Each executive would receive a lump sum cash payment of three times his base salary and three times his bonus award from the prior year, as well as outplacement benefits. Each agreement also provides that the executive is entitled to a payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

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

F1-38

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

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

NOTE 19 - Sales Contracts, Commodity and Financial Instruments

Gold Price Protection Agreement

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

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

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

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

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

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

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

F1-39

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

Interest Rate Swap Agreement

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

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

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

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

		(in thousands)
Balance as of July 31, 2006	$	-
Change in fair value of swap agreement		48
Interest expense (income)		-
Net cash settlements		-
Liability balance as of July 31, 2007	$	48
Change in fair value of swap agreement		141
Interest expense (income)		78
Net cash settlements		(75)
Liability balance as of July 31, 2008	$	192
Change in fair value of swap agreement		130
Interest expense (income)		50
Net cash settlements		(179)
Liability balance as of July 31, 2009	$	193

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

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

Quarter Ended	Derivatives in Cash Flow Hedging Relationships	Effective Results Recognized in OCI		Location of Results Reclassifed from AOCI to Earnings	Amount Reclassified from AOCI to Income	Ineffective Results Recognized in Earnings	Location of Ineffective Results
10/31/07	Interest Rate contracts	$	(66)	Interest Income (Expense)	-		N/A
1/31/08	Interest Rate contracts	$	(201)	Interest Income (Expense)	(5)	-	N/A
4/30/08	Interest Rate contracts	$	28	Interest Income (Expense)	(24)	-	N/A
7/31/08	Interest Rate contracts	$	19	Interest Income (Expense)	(49)	-	N/A
10/31/08	Interest Rate contracts	$	(38)	Interest Income (Expense)	(38)	-	N/A
1/31/09	Interest Rate contracts	$	(95)	Interest Income (Expense)	(35)	-	N/A
4/30/09	Interest Rate contracts	$	(16)	Interest Income (Expense)	(55)	-	N/A
7/31/09	Interest Rate contracts	$	(19)	Interest Income (Expense)	(55)	-	N/A

Quarter Ended	Derivatives Not Designated in Hedging Relationships	Location of Results	Amount of Gain (Loss)	
10/31/07	Gold contracts	Other Income (Expense)	$	(358)
1/31/08	Gold contracts	Other Income (Expense)	$	(345)
4/30/08	Gold contracts	Other Income (Expense)	$	(337)
7/31/08	Gold contracts	Other Income (Expense)	$	(319)
10/31/08	Gold contracts	Other Income (Expense)	$	(304)
1/31/09	Gold contracts	Other Income (Expense)	$	(274)
4/30/09	Gold contracts	Other Income (Expense)	$	-
7/31/09	Gold contracts	Other Income (Expense)	$	-

F1-41

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

	Liability Derivatives		
	Balance Sheet Location	Fair Values	
October 31, 2007			
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	115
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	613
January 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	313
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	660
April 30, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	274
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	702
July 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Other Liabilities	$	192
Derivatives designated as non-hedging instruments			
Gold derivatives	Other Liabilities	$	738
	Liability Derivatives		
October 31, 2008	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	$	199
Derivatives designated as non- hedging instruments			

Gold derivatives	Current Liabilities	$	734
	Liability Derivatives		
January 31, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	$	268
Derivatives designated as non-hedging instruments			
Gold derivatives	Current Liabilities	$	719
	Liability Derivatives		
April 30, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	$	228
	Liability Derivatives		
July 31, 2009	Balance Sheet Location	Fair Values	
Derivatives designated as hedging instruments			
Interest rate derivatives	Current Liabilities	$	193

F1-42

NOTE 20 – Accrued Expenses

Accrued expenses at July 31, 2009 and 2008 consists of the following:

	(in thousands) July 31, 2009	(in thousands) July 31, 2008
Net profit interest	$ -	$ 753
Net smelter return	212	189
Mining contract	30	193
Income tax payable	507	777
Utilities	128	110
Interest	21	72
Legal and professional	125	80
Salaries, wages and related benefits (Mexico)	533	334
Other liabilities	77	165
	$ 1,633	$ 2,673

NOTE 21 - Income Taxes

The Company’s income tax (expense) benefit consisted of:

	July 31, 2009	(in thousands) July 31, 2008	July 31, 2007
Current:			
United States	$ -	$ -	$ -
Foreign	(3,909)	(2,111)	-
	(3,909)	(2,111)	-
Deferred:			
United States	-	-	-
Foreign	(1,633)	(1,396)	-
	(1,633)	(1,396)	-
Total	$ (5,542)	$ (3,507)	$ -

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

	July 31, 2009	(in thousands) July 31, 2008	July 31, 2007
United States	$ (6,631)	$ (6,556)	$ (5,514)
Foreign	22,580	16,427	(1,958)
Total	$ 15,949	$ 9,871	$ (7,472)

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

(in thousands)

	July 31, 2009	July 31, 2008	July 31, 2007
Income (loss) before income tax	$ 15,949	$ 9,871	$ (7,472)
US statutory corporate income tax rate	34%	34%	34%
Income tax (expense) benefit computed at US statutory corporate income tax rate	(5,423)	(3,356)	2,540
Reconciling items:			
Change in valuation allowance on deferred tax assets	(1,474)	(1,137)	(2,540)
Difference in foreign tax	1,355	986	-
Income tax expense	$ (5,542)	$ (3,507)	$ -

F1-43

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

	(in thousands)		
	July 31, 2009	July 31, 2008	July 31, 2007
Net deferred income tax assets, non current:			
Remediation and reclamation costs	$ (44)	$ (29)	$ -
Net operating losses	11,888	9,334	8,197
Depreciation and amortization	76	602	-
	$ 11,920	$ 9,907	$ 8,197
Valuation allowances	(11,888)	(9,334)	(8,197)
	$ 32	$ 573	$ -
Net deferred income tax liabilities, current:			
Depreciation and amortization	$ -	$ 12	$ -
Foreign currency exchange	(5)	2	-
Inventory valuation	(3,846)	(1,925)	-
Accounts receivable	(567)	(413)	-
Other	185	261	-
	$ (4,233)	$ (2,063)	$ -

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

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

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

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

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

F1-44

For income tax purposes in the United States, the Company had available net operating loss carryforwards ("NOL") as of July 31, 2009, 2008 and 2007 of approximately $27,912, $22,179 and $17,464, respectively to reduce future federal taxable income. If any of the NOL's are not utilized, they will expire at various dates through 2028. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

NOTE 22 - Commitments and Contingencies

Lease Commitments

The Company occupies office space in New York City under a non-cancelable escalating operating lease that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs. The Company also occupies office space in Caborca, Sonora, Mexico that commenced on March 2, 2009 and terminates on March 1, 2013. The Company leased 12 mining concessions totaling 1,790 hectares located northwest of Saric, Sonora, Mexico. These concessions are about a sixty mile drive northeast of the El Chanate project. The lease agreement, which allows us to explore the property, required an initial payment of $45 upon execution of the lease. In addition, we are required to make ten payments of $25 every four months beginning six months after execution of the lease agreement. The agreement also contains an option for us to acquire the mining concessions for a cash payment of $1,500 at the end of the term or December 2010. If we elect not to exercise this option, we would have the ability to mine the concessions but pay a 1% net smelter return capped at $3,000. Prior payments made under this lease agreement would be deductible from the $3,000 cap.

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

Fiscal Years Ending July 31,		
2010	$	247
2011		252
2012		231
2013		30
	$	760

Rent expense was approximately $155, $107 and $66 for the years ended July 31, 2009, 2008 and 2007, respectively.

Land Easement

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

El Charro

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

NOTE 23 – Unaudited Supplementary Data

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

	2009 Three Months Ended			
	October 31	January 31	April 30	July 31
Revenues	$ 9,175	$ 11,369	$ 12,395	$ 9,818
Costs applicable to sales	$ 3,042	$ 3,655	$ 3,698	$ 3,488
Net income applicable to common shares	$ 1,936	$ 3,196	$ 2,554	$ 2,721
Net income per common share, basic	$ 0.01	$ 0.02	$ 0.01	$ 0.01
Net income per common share, diluted	$ 0.01	$ 0.02	$ 0.01	$ 0.01
Basic weighted-average shares outstanding	192,844	193,195	193,363	193,578
Diluted weighted-average shares outstanding	198,342	198,706	200,827	200,818
Closing price of common stock	$ 0.29	$ 0.63	$ 0.54	$ 0.61

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

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

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

NOTE 24 – Subsequent Events

In August 2009, we initiated the construction of an additional leach pad area. Permitting and site clearing has been completed and the construction contractor has begun earthworks. Golder Engineering of Tucson, Arizona will oversee construction activities and quality control and assurance for the project. The construction schedule anticipates that stacking ore on the new pad will commence in January 2010 and will cost approximately $3,300. On October 1, 2009, the Company committed to the procurement of a new secondary crusher for the El Chanate mine. The cost for this equipment is approximately $1,000 with one-third due upon execution of the sales order, one-third due in 30 days and one-third upon shipment.

On September 17, 2009, the Company's senior secured revolving credit facility that permits the Borrowers to borrow up to $5,000 during the one year period after the closing of the Credit Agreement expired. The Company had not drawn on this facility during the term period and determined that it was not cost beneficial to maintain the credit facility on a going forward basis.

On September 17, 2009, the Company terminated Jeffrey W. Pritchard as Executive Vice President and Secretary of the Company without cause pursuant to a restructuring of its corporate investor relations functions. The termination was effective September 15, 2009. Mr. Pritchard also resigned as a Director of the Company effective September 29, 2009. As part of the settlement, Mr. Pritchard is to receive a lump sum payment of approximately $426, and an additional payment of approximately $65, if Mr. Pritchard fulfills certain terms of the termination agreement. Mr. Pritchard will be entitled to change in control benefits should the Company enter into a transaction on or before December 31, 2009 with certain entities that would result in a "Change in Control" as defined in his Change In Control Agreement with the Company. In addition, on September 17, 2009, the Company appointed Robert Roningen Secretary of the Company. Mr. Roningen previously was Secretary of the Company from 2000 to February, 2007.

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

	January 31, 2010 (unaudited)	July 31, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 4,943	$ 6,448
Accounts Receivable	2,417	2,027
Ore on Leach Pads (Note 6)	26,397	20,024
Material and Supply Inventories (Note 5)	1,712	1,381
Deposits (Note 7)	129	26
Marketable Securities (Note 4)	35	35
Prepaid Expenses	380	277
Loans Receivable – Affiliate (Note 12 and 16)	30	33
Other Current Assets (Note 8)	1,050	1,042
Total Current Assets	37,093	31,293
Mining Concessions (Note 11)	52	51
Property & Equipment – net (Note 9)	24,725	22,417
Intangible Assets – net (Note 10)	686	318
Other Assets:		
Investment (Note 13)	500	-
Deferred Financing Costs	482	424
Deferred Tax Asset (Note 21)	32	32
Security Deposits	66	66
Total Other Assets	1,080	522
Total Assets	$ 63,636	$ 54,601
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 1,427	$ 988
Accrued Expenses (Note 20)	4,435	1,633
Derivative Contracts (Note 19)	112	193
Deferred Tax Liability (Note 21)	4,279	4,233
Current Portion of Long-term Debt (Note 18)	3,600	3,600
Total Current Liabilities	13,853	10,647
Reclamation and Remediation Liabilities (Note 14)	1,854	1,594
Other liabilities	79	78
Long-term Debt (Note 18)	2,600	4,400
Total Long-term Liabilities	4,533	6,072
Commitments and Contingencies		
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share; Authorized 75,000,000 shares; Issued and Outstanding 48,497,173 and 48,463,406 shares, respectively	5	5

Additional Paid-In Capital		64,810		64,071
Accumulated Deficit		(16,205)		(22,089)
Deferred Financing Costs		(1,406)		(1,808)
Deferred Compensation		(157)		(319)
Accumulated Other Comprehensive Income (Note 15)		(1,797)		(1,978)
Total Stockholders' Equity		45,250		37,882
Total Liabilities and Stockholders' Equity	$	63,636	$	54,601

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

F1-48

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

	For The Three Months Ended January 31, 2010	2009
Revenues		
Sales – Gold, net	$ 13,228	$ 11,369
Costs and Expenses:		
Costs Applicable to Sales	4,625	3,655
Depreciation and Amortization	866	755
General and Administrative	2,031	1,061
Exploration	349	406
Total Costs and Expenses	7,871	5,877
Income from Operations	5,357	5,492
Other Income (Expense):		
Interest Income	4	11
Interest Expense	(102)	(227)
Other Expense	(37)	(24)
Loss on change in fair value of derivative	-	(274)
Total Other Expense	(135)	(514)
Income before Income Taxes	5,222	4,978
Income Tax Expense	(2,278)	(1,782)
Net Income	$ 2,944	$ 3,196
Income Per Common Share		
Basic	$ 0.06	$ 0.07
Diluted	$ 0.06	$ 0.06
Basic Weighted Average Common Shares Outstanding	48,494,297	48,298,870
Diluted Weighted Average Common Shares Outstanding	49,976,904	49,676,532

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

F1-49

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

	For The Six Months Ended January 31, 2010	For The Six Months Ended January 31, 2009
Revenues		
Sales – Gold, net	$ 24,955	$ 20,544
Costs and Expenses:		
Costs Applicable to Sales	8,735	6,697
Depreciation and Amortization	1,709	1,458
General and Administrative	3,660	2,438
Exploration	681	896
Total Costs and Expenses	14,785	11,489
Income from Operations	10,170	9,055
Other Income (Expense):		
Interest Income	8	24
Interest Expense	(235)	(427)
Other Expense	(62)	(232)
Loss on change in fair value of derivative	-	(578)
Total Other Expense	(289)	(1,213)
Income before Income Taxes	9,881	7,842
Income Tax Expense	(3,997)	(2,709)
Net Income	$ 5,884	$ 5,133
Income Per Common Share		
Basic	$ 0.12	$ 0.11
Diluted	$ 0.12	$ 0.10
Basic Weighted Average Common Shares Outstanding	48,505,818	48,278,255
Diluted Weighted Average Common Shares Outstanding	49,861,776	49,729,966

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

F1-50

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

	Common Stock Shares	Common Stock Amount	Additional paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Deferred Financing Costs	Deferred Compensation	Total Stockholders' Equity
Balance at July 31, 2009	48,463,406	$ 5	$ 64,071	$ (22,089)	$ (1,978)	$ (1,808)	$ (319)	$ 37,882
Amortization of deferred finance costs	-	-	-	-	-	402	-	402
Equity based compensation	(41,667)	-	686	-	-	-	162	848
Common stock issued upon the exercising of options and warrants	75,434	-	53	-	-	-	-	53
Net income for the six months ended January 31, 2010	-	-	-	5,884	-		-	5,884
Change in fair value on interest rate swaps	-	-	-	-	81	-	-	81
Equity adjustment from foreign currency translation	-	-	-	-	100	-	-	100
Total comprehensive income	-	-	-	-	-	-	-	6,065
Balance at January 31, 2010	48,497,173	$ 5	$ 64,810	$ (16,205)	$ (1,797)	$ (1,406)	$ (157)	$ 45,250

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

F1-51

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

	For The Six Months Ended January 31, 2010	For The Six Months Ended January 31, 2009
Cash Flow From Operating Activities:		
Net Income	$ 5,884	$ 5,133
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,709	1,458
Accretion of Reclamation and Remediation	76	75
Loss on change in fair value of derivative	-	578
Equity Based Compensation	848	588
Changes in Operating Assets and Liabilities:		
Decrease (increase) in Accounts Receivable	(390)	276
Decrease (increase) in Prepaid Expenses	(103)	22
Increase in Inventory	(6,175)	(852)
Increase in Other Current Assets	(8)	(709)
Increase in Deposits	(103)	(334)
Increase in Deferred Tax Asset	-	(195)
Increase (decrease) in Accounts Payable	439	(2)
Decrease in Derivative Liability	-	(572)
Increase (decrease) in Other Liability	1	(18)
Increase (decrease) in Reclamation and Remediation	184	(526)
Increase in Deferred Tax Liability		