CAPITAL GOLD CORP
Form 10-Q
March 14, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 31, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 0-13078

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

DELAWARE	13-3180530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

76 Beaver Street, 14th floor, New York, NY 10005
(Address of principal executive offices)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer (do not check if smaller reporting company)	¨	Smaller reporting company	¨

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

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

Class	Outstanding at March 3, 2011
Common Stock, par value $.0001 per share	61,427,278

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial statements are unaudited for the interim periods, but include all adjustments (consisting only of normal recurring adjustments), which we consider necessary for the fair presentation of results for the three and six months ended January 31, 2011.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with U.S. generally accepted accounting principles and should be read in conjunction with our audited financial statements as of, and for the fiscal year ended July 31, 2010.

The results reflected for the three and six months ended January 31, 2011 are not necessarily indicative of the results for the entire fiscal year ending July 31, 2011.

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

	January 31, 2011 (unaudited)	July 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$8,863	$12,125
Ore on Leach Pads (Note 6)	40,547	32,896
Material and Supply Inventories (Note 5)	2,807	1,953
Marketable Securities (Note 4)	181	30
Prepaid Expenses	375	431
Other Current Assets (Note 7)	2,844	1,471
Total Current Assets	55,617	48,906
Mining Concessions (Note 11)	18,005	52
Property & Equipment – net (Note 8)	72,376	21,390
Goodwill (Note 9)	3,520	-
Intangible Assets – net (Note 10)	725	730
Other Assets:		
Deferred Financing Costs	816	1,351
Security Deposits	77	66
Other Assets	2	-
Total Other Assets	895	1,417
Total Assets	$151,138	$72,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$1,224	$907
Accrued Expenses (Note 18)	7,204	5,040
Derivative Contracts (Note 17)	-	40
Deferred Tax Liability (Note 19)	7,754	7,462
Current Portion of Long-term Debt (Note 16)	2,600	3,600
Total Current Liabilities	18,782	17,049
Reclamation and Remediation Liabilities (Note 12)	2,769	2,373
Other Liabilities	263	373
Non-Current Deferred Tax Liability (Note 19)	18,074	971
Long-Term Debt (Note 16)	-	800
Total Long-term Liabilities	21,106	4,517
Commitments and Contingencies	-	-
Stockholders' Equity:		
Common Stock, Par Value $.0001 Per Share; Authorized 75,000,000 shares; Issued and Outstanding 61,338,136 and 48,768,665 shares, respectively	6	5

Additional Paid-In Capital	113,627	65,391
Accumulated Deficit	(1,853)	(10,095)
Deferred Compensation	-	(80)
Accumulated Other Comprehensive Income (Note 13)	(530)	(4,292)
Total Stockholders' Equity	111,250	50,929
Total Liabilities and Stockholders' Equity	$151,138	$72,495

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

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, 2011	2010
Revenues		
Sales – Gold, net	$ 20,038	$ 13,228
Costs and Expenses:		
Costs Applicable to Sales	7,676	4,625
Depreciation and Amortization	1,030	624
General and Administrative	1,430	2,031
Exploration	826	349
Total Costs and Expenses	10,962	7,629
Income from Operations	9,076	5,599
Other Income (Expense):		
Interest Income	3	4
Interest Expense	(273)	(344)
Other Income (Expense)	10	(37)
Total Other Expense	(260)	(377)
Income before Income Taxes	8,816	5,222
Income Tax Expense	(3,526)	(2,278)
Net Income	$ 5,290	$ 2,944
Income Per Common Share		
Basic	$ 0.09	$ 0.06
Diluted	$ 0.09	$ 0.06
Basic Weighted Average Common Shares Outstanding	61,330,448	48,494,297
Diluted Weighted Average Common Shares Outstanding	61,643,859	49,976,904

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

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, 2011	2010
Revenues		
Sales – Gold, net	$38,989	$24,955
Costs and Expenses:		
Costs Applicable to Sales	14,886	8,735
Depreciation and Amortization	1,990	1,224
General and Administrative	4,964	3,660
Exploration	1,449	681
Total Costs and Expenses	23,289	14,300
Income from Operations	15,700	10,655
Other Income (Expense):		
Interest Income	6	8
Interest Expense	(575)	(720)
Other Income (Expense)	11	(62)
Total Other Expense	(558)	(774)
Income before Income Taxes	15,142	9,881
Income Tax Expense	(6,900)	(3,997)
Net Income	$8,242	$5,884
Income Per Common Share		
Basic	$0.13	$0.12
Diluted	$0.13	$0.12
Basic Weighted Average Common Shares Outstanding	61,150,592	48,505,818
Diluted Weighted Average Common Shares Outstanding	61,403,902	49,861,776

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

CAPITAL GOLD CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(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 Compensation	Total Stockholders' Equity
Balance at July 31, 2010	48,768,665	$ 5	$ 65,391	$ (10,095)	$ (4,292)	$ (80)	$ 50,929
Nayarit Acquisition	12,453,363	1	47,598	-	-	-	47,599
Equity based compensation, net of forfeitures	(20,833)	-	181	-	-	80	261
Common stock issued upon the exercising of options and warrants	136,108	-	457	-	-	-	457
Net income for the six months ended January 31, 2011	-	-	-	8,242	-	-	8,242
Change in fair value on interest rate swaps	-	-	-	-	(23)	-	(23)
Unrealized gain on marketable securities	-	-	-	-	149	-	149
Equity adjustment from foreign currency translation	-	-	-	-	3,636	-	3,636
Total comprehensive income	-	-	-	-	-	-	12,004
Balance at January 31, 2011	61,337,303	$ 6	$ 113,627	$ (1,853)	$ (530)	$ -	$ 111,250

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

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,	
	2011	2010
Cash Flow From Operating Activities:		
Net Income	$8,242	$5,884
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,990	1,224
Amortization of Deferred Financing Costs	499	485
Accretion of Reclamation and Remediation	88	76
Gain on sale of property and equipment	(2)	-
Equity Based Compensation	261	848
Changes in Operating Assets and Liabilities, excluding business combination		
Increase in Accounts Receivable	-	(390)
Decrease (increase) in Prepaid Expenses	73	(103)
Increase in Inventory	(6,366)	(6,175)
Increase in Other Current Assets	(406)	(8)
Increase in Other Deposits	-	(103)
Increase (decrease) in Accounts Payable	(712)	439
Increase (decrease) in Other Liability	(119)	1
Increase in Reclamation and Remediation	209	184
Increase in Deferred Tax Liability	-	46
Increase in Accrued Expenses	2,042	2,802
Net Cash Provided By Operating Activities	5,799	5,210
Cash Flow From Investing Activities:		
Purchase of Mining, Milling and Other Property and Equipment	(7,708)	(4,031)
Proceeds from sale of Mining, Milling and Other Property and Equipment	7	-
Purchase of Intangibles	-	(391)
Investment in Privately Held Company	-	(500)
Cash Acquired in Nayarit Business Combination	50	-
Net Cash Used in Investing Activities	(7,651)	(4,922)

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

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

	For The Six Months Ended January 31, 2011	2010
Cash Flow From Financing Activities:		
Repayments from Affiliate, net	5	4
Payment of Deferred Finance Costs	-	(150)
Repayments on Notes Payable	(1,800)	(1,800)
Proceeds From Issuance of Common Stock	358	53
Net Cash Used in Financing Activities	(1,437)	(1,893)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	27	100
Decrease In Cash and Cash Equivalents	(3,262)	(1,505)
Cash and Cash Equivalents - Beginning	12,125	6,448
Cash and Cash Equivalents – Ending	$8,863	4,943
Supplemental Cash Flow Information:		
Cash Paid For Interest	$81	$242
Cash Paid For Income Taxes	$4,281	$2,156
Non-Cash Financing Activities:		
Change in Fair Value of Interest Rate Swaps	$40	$81
Non-Cash Investing Activities:		
Fair Value of Common Stock Issued Upon		
Acquisition of Nayarit Gold, Inc.	$47,599	-

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

CAPITAL GOLD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(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. Capital Gold Corporation is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate project, as well as the development of our Orion Project in the State of Nayarit Mexico. All of the Company's mining activities are being performed in Mexico.

On February 10, 2010, Capital Gold Corporation entered into a business combination agreement (the “Nayarit Business Combination Agreement”), as amended and extended, with Nayarit, a corporation organized under the Ontario Business Corporation Act (“OBCA”) pursuant to which, on August 2, 2010, Nayarit became a wholly-owned subsidiary of Capital Gold (the “Nayarit Business Combination”). The Company effected the amalgamation (the “Amalgamation”) of Nayarit and a corporation, organized under the OBCA as a wholly-owned subsidiary of the Company (“Merger Sub”), to form a combined entity (“AmalgSub” or “Surviving Company”), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub cease, and AmalgSub, as the surviving company in the Amalgamation, continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Nayarit Business Combination Agreement, all of the Nayarit shares of common stock (the “Nayarit Common Shares”) issued and outstanding immediately prior to the consummation of the Nayarit Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) were exchanged into the Company’s common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of the Company’s management, the accompanying condensed consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the condensed consolidated financial position and results of operations and cash flows for the periods presented. They 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”), Nayarit Gold, Inc. (“NYG”) and Nayarit Gold de Mexico (“NYM”), as well as the accounts within Caborca Industrial S.A. de C.V. (“Caborca Industrial”), a Mexican corporation that is 100% owned by two of the Company’s former officers and directors for mining support services. Ownership was relinquished upon their recent resignations, and as of January 31, 2011, the Company was in the process of transitioning ownership. 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 ASC guidance for consolidation accounting.

All significant intercompany accounts and transactions are eliminated in consolidation. 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 balance sheet, results of operations, stockholders’ equity or cash flows.

The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended July 31, 2010 should be read in conjunction with these condensed consolidated financial statements. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

NOTE 2 – Summary of Significant Accounting Policies

Recently Issued Accounting Pronouncements

Fair Value Measurements

In January 2010, the ASC guidance for fair value measurements and disclosure was updated to require additional disclosures related to: i) transfers in and out of level 1 and 2 fair value measurements and ii) enhanced detail in the level 3 reconciliation. The guidance was amended to provide clarity about: i) the level of disaggregation required for assets and liabilities and ii) the disclosures required for inputs and valuation techniques used to measure fair value for both recurring and nonrecurring measurements that fall in either level 2 or level 3. The updated guidance was adopted, with the exception of the Level 3 disaggregation, which is effective for the fiscal years beginning August 1, 2011. The Company adopted this guidance on the Company's consolidated financial position, results of operations and cash flows.

NOTE 3 - 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 \$1.96 to \$9.64 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 between three to five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

The Company accounts for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employees services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The cumulative effect of applying the forfeiture rates is not material. ASC guidance 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 six months ended January 31, 2011, and 2010 were \$1.93 and \$2.16. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Six months ended January 31, 2011	2010	
Expected volatility	58.66%-66.28%	71.25	%
Risk-free interest rate	1.46%-1.76%	2.48	%
Expected dividend yield	-	-	
Expected life	5 years	5.0 years	
Forfeiture rate	-	-	

Stock option and activity for employees during the fiscal years ended July 31, 2010 and 2009, and six months ended January 31, 2011 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, 2008	887,500	$ 2.20	4.00	$ 334
Options granted1	250,000	1.96	-	-
Options exercised	(176,432)	1.48	-	-
Options expired	(86,068)	1.40	-	-
Outstanding at July 31, 2009	875,000	2.36	5.18	70
Options granted1	500,000	3.60	-	-
Options exercised	(128,638)	2.39	-	-
Options expired	(1,015,112)	2.93	-	-
Options outstanding at July 31, 2010	231,250	2.52	4.37	280
Options granted2	237,466	4.61	-	-
Options exercised	(11,394)	3.52	-	-
Options expired	-	-	-	-
Options outstanding at January 31, 2011	457,322	$ 3.58	3.05	$ 553
Options exercisable at January 31, 2011	398,572	$ 3.70	2.91	$ 434

1 Issuances under 2006 Equity Incentive Plan.
2 212,466 options added pursuant to the business combination with Nayarit that closed on August 2, 2010; 25,000 options were issued under 2006 Equity Incentive Plan.

Unvested stock option balances for employees at January 31, 2011 are as follows:

	Number of Options	Weighted average exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Unvested Options Outstanding at July 31, 2008	437,500	$2.52	4.49	$ 8
Options granted	250,000	1.96	-	-
Options vested	(250,000)	2.24	-	-
Unvested Options outstanding at July 31, 2009	437,500	$2.36	5.18	$ 35
Options granted	500,000	3.60	-	-
Options vested	(237,500)	3.23	-	-
Options expired	(607,500)	3.02	-	-
Unvested Options outstanding at July 31, 2010	92,500	$2.52	4.37	$ 112
Options granted	25,000	3.73	-	-
Options vested	(58,750)	2.78	-	-
Options expired	-	-	-	-
Unvested Options outstanding at January 31, 2011	58,750	$2.78	4.00	$ 118

Stock option and warrant activity for non-employees during the years ended July 31, 2010 and 2009, and six months ended January 31, 2011 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, 2008	503,750	$2.48	3.54	$ 54
Options granted1	350,000	2.00	-	-
Options exercised	(37,500)	1.56	-	-
Options expired	(37,500)	1.56	-	-
Warrants and options outstanding at July 31, 2009	778,750	$2.36	3.36	$ 73
Options granted1	237,500	3.63	-	-
Warrants and options exercised	(239,954)	2.83	-	-
Options expired	(388,796)	2.16	-	-
Warrants and options outstanding at July 31, 2010	387,500	$3.02	3.97	$ 250
Options granted2	2,644,162	4.64	-	-
Options exercised	(60,518)	3.49	-	-
Options expired	(600,272)	5.76	-	-
Warrants and options outstanding at January 31, 2011	2,370,872	$4.12	1.50	$ 1,577
Warrants and options exercisable at January 31, 2011	1,883,372	$4.29	.42	$ 945

1 Issuances under 2006 Equity Incentive Plan.
2 2,219,162 options added pursuant to the business combination with Nayarit that closed on August 2, 2010; 425,000 options were issued under 2006 Equity Incentive Plan.

Unvested stock option balances for non-employees at January 31, 2011 are as follows:

	Number of Options	Weighted Average Exercise price	Weighted average remaining contracted term (years)	Aggregate Intrinsic value
Outstanding at July 31, 2008	113,750	$ 2.52	4.49	$ 3
Options granted	318,750	1.96	-	-
Options vested	(191,875)	2.04	-	-
Outstanding at July 31, 2009	240,625	$ 2.16	4.88	$ 70
Options granted	237,500	3.63	-	-
Options vested	(154,166)	3.18	-	-
Options expired	(157,292)	2.25	-	-
Outstanding at July 31, 2010	166,667	$ 3.21	4.32	$ 77
Options granted	425,000	3.47	-	-
Options vested	(79,168)	2.74	-	-
Options expired	(25,000)	3.60	-	-
Unvested options outstanding at January 31, 2011	487,499	$ 3.49	4.50	$ 632

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The impact on the Company's results of operations of recording equity based compensation for the six months ended January 31, 2011 and 2010, for employees and non-employees was approximately $261 and $848. The Company has not recognized any tax benefit or expense for the six months ended January 31, 2011 and 2010, related to these items due to the Company's net operating losses and corresponding valuation allowance within the U.S. (See Note 19).

As of January 31, 2011, there was approximately $854 of unrecognized equity based compensation cost related to options granted which have not yet vested.

NOTE 4 - Marketable Securities

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

	(in thousands) January 31, 2011	July 31, 2010
Marketable equity securities, at cost	$ 52	$ 50
Marketable equity securities, at fair value	$ 181	$ 30

NOTE 5 – Material and Supplies Inventories

	(in thousands)	
	January 31, 2011	July 31, 2010
Materials, supplies and other	$ 2,807	$ 1,953
Total	$ 2,807	$ 1,953

NOTE 6 - Ore on Leach Pads and Inventories ("In-Process Inventory")

	(in thousands)	
	January 31, 2011	July 31, 2010
Ore on leach pads	$ 40,547	$ 32,896
Total	$ 40,547	$ 32,896

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 estimated 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 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands) January 31, 2011	July 31, 2010
Value added tax to be refunded	$ 2,588	$ 891
Note receivable – Nayarit	-	350
MRS receivable	-	210
Loans receivable – affiliate	10	15
Deposit	238	5
Other	8	-
Total Other Current Assets	$ 2,844	$ 1,471

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Process equipment and facilities	$ 35,880	$ 29,038
Mining equipment	2,266	2,180
Mineral properties	45,528	152
Construction in progress	1,860	165
Computer and office equipment	552	366
Improvements	48	13
Furniture	73	43
Total	86,207	31,957
Less: accumulated depreciation	(13,831)	(10,567)
Property and equipment, net	$ 72,376	$ 21,390

Depreciation expense for the six months ended January 31, 2011 and 2010 was approximately $1,957 and $1,201, respectively.

NOTE 9 - Goodwill

On August 2, 2010 the Company acquired Nayarit Gold, Inc. ("Nayarit") for approximately $47,599 in net consideration paid. The allocation of the fair value of the acquisition resulted in goodwill. None of the goodwill recognized is expected to be deductible for income tax purposes. As of January 31, 2011, the balance of goodwill was $3,520 (See Note 21).

No impairment charges were recorded for the six months ended January 31, 2011.

NOTE 10 - Intangible Assets

Intangible assets consist of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Water Rights	$ 526	$ 510
Reforestation fee	293	271
Mobilization Payment to Mineral Contractor	63	70
Investment in Right of Way	9	18
Total	891	869
Accumulated Amortization	(166)	(139)
Intangible assets, net	$ 725	$ 730

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 Units of Production ("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 ASC guidance for goodwill and other intangibles. There was no impairment at January 31, 2011.

Amortization expense for the six months ended January 31, 2011 and 2010 was approximately $33 and $23, respectively.

NOTE 11 - Mining Concessions

Mining concessions consists of the following:

	(in thousands)	
	January 31, 2011	July 31, 2010
Sonora concessions	$ 34	$ 52
Nayarit concessions	17,971	-
Total	$ 18,005	$ 52

The Sonora concessions are carried at historical cost and are being amortized using the UOP method. Amortization expense for the six months ended January 31, 2011 and 2010 was approximately $3 and $3, respectively.

On August 2, 2010 the Company acquired Nayarit Gold, Inc. ("Nayarit") for approximately $47,599 in net consideration paid. The allocation of the fair value of the acquisition included exploration interests. As of January 31, 2011, the balance of these exploration interests was $17,971 (See Note 21).

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 January 31, 2011, we estimated the reclamation costs for the El Chanate site to be approximately $4,782. 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 January 31, 2011. As of January 31, 2011, approximately $2,769 was accrued for reclamation obligations relating to mineral properties in accordance with ASC guidance for asset retirement and environmental obligations.

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the six months ended January 31, 2011:

	(in thousands)
Balance as of July 31, 2010	$ 2,373
Additions, changes in estimates and other	308
Accretion expense	88
Balance as of January 31, 2011	$ 2,769

NOTE 13 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consists of foreign currency 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, 2010	$ (4,512)	$ (20)	$ 240	$ (4,292)
Income	3,636	149	(23)	3,762
Balance as of January 31, 2011	$ (876)	$ 129	$ 217	$ (530)

The Company has not recognized any income tax benefit or expense associated with other comprehensive income items for the year ended July 31, 2010 and the six months ended January 31, 2011.

NOTE 14 - Related Party Transactions

The Company utilizes a Mexican Corporation, Caborca Industrial, for mining services. Caborca Industrial was 100% owned by the Company’s former Chief Executive Officer and another former officer of the Company. Ownership was relinquished upon their recent resignations, and as of January 31, 2011, the Company was in the process of transitioning ownership. These services include but are not limited to the payment of mining salaries and related costs. Caborca Industrial bills the Company for these services at slightly above cost. Mining expenses charged by Caborca Industrial and eliminated upon consolidation amounted to approximately $3,317, and $2,578 for the six months ended January 31, 2011, and 2010, respectively.

On April 29, 2010, the Company entered into a severance agreement and general release with Mr. Brownlie, pursuant to which Mr. Brownlie’s employment agreement terminated and he resigned as President and COO effective upon the consummation of the Business combination between the Company and Nayarit Gold on August 2, 2010. Pursuant to the Severance Agreement, Mr. Brownlie was entitled to severance payments in the aggregate amount of approximately $1,388, payable over a six month period beginning June 2010; along with an additional $375 associated with the closing of the business combination agreement with Nayarit. As of January 31, 2011, we have paid all amounts due under this agreement.

NOTE 15 - Stockholders' Equity

Common Stock

The Company received proceeds of approximately $358 during the six months ended January 31, 2011 from the exercising of an aggregate of 101,209 options. The Company also issued 6,328 shares upon the cashless exercising of options during the six months ended January 31, 2011.

During the six months ended January 31, 2011 and 2010, the Company recorded approximately $261 and $848 in equity compensation expense, net of related forfeitures, related to the vesting of restricted stock and stock option grants, respectively. As of January 31, 2011, all compensation costs related to restricted stock granted have been recognized in full.

As part of the severance agreement with the Company's former President and Chief Operating Officer, the unvested portion of a previous restricted share grant of 20,833 shares was forfeited. As of January 31, 2011, the Company recorded adjustments to additional paid in capital and deferred compensation costs totaling approximately $53 related to this forfeiture.

The Company accounts for non-employee equity based awards in which goods or services are the consideration received for the equity instruments issued at their fair value.

Reverse Stock Split

On January 25, 2010, the Company announced that, to meet minimum share price requirements in connection with its NYSE EURONEXT LLC (the "Exchange") listing, it effected a reverse stock split, with every four (4) shares of common stock of the Company issued and outstanding being converted into one (1) share of common stock. As noted above, the reverse split was originally approved by shareholders at the Annual Shareholders Meeting held on October 31, 2008 and subsequently ratified by shareholders at the recent Annual Shareholders Meeting held on January 19, 2010. No fractional common shares were issued in connection with the reverse split. A holder of common shares, who otherwise would have been entitled to receive a fractional share as a result of the reverse split, received an amount in cash equal to the dollar amount multiplied by such fractional entitlement.

On February 1, 2010, the securities of Capital Gold Corporation were approved by the Exchange for listing and registration.

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 4,375,000 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.

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 Internal Revenue Code of 1986, as amended (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.

On August 2, 2010, in connection with the consummation of the Business Combination, and at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 25,000 options to Colin Sutherland under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: 50% vested upon issuance and the balance vests 25% annually thereafter. The exercise price of the stock options is $3.73 per share. 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 25,000 options totaling $48. For the six months ended January 31, 2011 the Company recorded approximately $30 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was $1.90.

On August 18, 2010, at the recommendation of the Compensation Committee of the Board of Directors, the Company's Board of Directors approved the issuance of 175,000, 175,000 and 75,000 options to Stephen Cooper, John Cutler and Gary Huber, respectively, aggregating 425,000 stock options under our 2006 Equity Incentive Plan. The stock options have a term of five years and vest as follows: one-third vested upon first anniversary of date of grant and the balance vests one-third annually thereafter. The exercise price of the stock options is $3.47 per share (per the Plan, the closing price on the NYSE 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 425,000 options received by these individuals totaling $823. For the six months ended January 31, 2011 the Company recorded approximately $125 in equity compensation expense on the vested portion of these stock options, respectively. The grant date fair value of each stock option was $1.94.

On March 11, 2010, the Company entered into an agreement with Gifford A. Dieterle, the former Chief Executive Officer ("CEO") of the Company and Chairman of the Board, pursuant to which Mr. Dieterle resigned his position as CEO and Chairman of the Board, effective March 18, 2010. Pursuant to the agreement, Mr. Dieterle received lump sum payments totaling approximately $376 in September 2010, and additional payments totaling approximately $288 will be due in 2011. As of January 31, 2011, the Company has paid approximately $24. In addition, Mr. Dieterle was due an issuance of $100 in shares of the Company's common stock, initially proposed to be received in September 2010. The number of common shares to be issued was determined by dividing $100 by the volume weighted average closing sale price for the 10 trading days prior to September 18, 2010 on NYSE EURONEXT. The Toronto Stock Exchange ("TSX") provided conditional approval for this issuance provided no more than 27,000 common shares were to be issued without additional written consent of TSX. TSX provided this additional written consent on October 4, 2010 to allow the issuance of an additional 1,571 shares, for a total of 28,571 shares pursuant to the severance agreement. The shares were issued, accordingly, on October 4, 2010.

NOTE 16 - Debt

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

	January 31, 2011	July 31, 2010
Total long-term debt	$ 2,600	$ 4,400
Less current portion	(2,600)	(3,600)
Long-term debt	$ -	$ 800

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. Under the Credit 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 January 31, 2011 and 2010, the accrued interest on the Term Loan was approximately $6 and $14, respectively.

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Term Loan principal shall be repaid quarterly. Payments commenced on September 30, 2008 and consisted of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. Principal under the Term Loan shall bear interest at a rate per annum equal to the LIBOR Rate plus 2.5% per annum.

The Credit Agreement 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. $30,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. $500. In addition, the Credit Agreement restricts, among other things, the Company's ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, the Company obtained the consent of Standard Bank.

The Loan 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, pledged all of its ownership interest in MSR and Oro.

On September 17, 2009, our $5,000 revolving loan contained within the Credit Agreement expired. The Company had not drawn on this facility during the term period and determined that during that time it was not cost beneficial to maintain the revolving loan on a going forward basis.

On June 30, 2010, Capital Gold Corporation entered into the First Amendment to the Amended and Restated Credit Agreement (the "Amendment") by and among our wholly-owned Mexican subsidiaries Minera Santa Rita S. de R.L. de C.V. and Oro de Altar S. de R.L. de C.V., as borrowers ("Borrowers"), the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Amendment amends the Credit Agreement, which amended and restated the Credit Agreement between the parties dated August 15, 2006. The Credit Agreement provided for a senior secured term credit facility in the aggregate amount of $12,500 (the "Term Facility") and provided for a senior secured revolving credit facility in the aggregate principal amount of $5,000 (the "Revolving Facility"). Capital Gold guarantees all obligations of the Borrowers under the Term Facility and the Revolving Facility. The material amendments to the Credit Agreement contained in the Amendment are as follows:

The Amendment increases the Revolving Facility to $7,500. The Revolving Facility is available for a two-year period commencing June 30, 2010. The Borrowers may request a borrowing of the Revolving Facility from time to time, provided that each borrowing shall be in a minimum aggregate amount of $500. All amounts due under the Revolving Facility, including all accrued interest and other amounts described in the Credit Agreement, shall be due and payable on June 30, 3012.

Amounts borrowed under the Term Facility and the Revolving Facility bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable interest period plus the applicable margin. The applicable margin for the Revolving Facility was increased in the Amendment to 3.0% per annum.

As of January 31, 2011, 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.

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

Fiscal Years Ending July 31,

2011	$	2,200
2012		400
	$	2,600

NOTE 17 - Sales Contracts, Commodity and Financial Instruments

Interest Rate Swap Agreement

On October 11, 2006, prior to our initial draw on the Credit Agreement, 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 Agreement. The interest rate swap contract terminated on 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 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 following is a reconciliation of the derivative contract regarding the Company's Interest Rate Swap agreement:

		(in thousands)
Liability balance as of July 31, 2010	$	40
Change in fair value of swap agreement		1
Net cash settlements		(41)
Liability balance as of January 31, 2011	$	-

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 ASC guidance for derivatives and hedging.

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

Quarter Ended	Derivatives in Cash Flow Hedging Relationships	Effective Results Recognized in OCI	Location of Results Reclassified from AOCI to Earnings	Amount Reclassified from AOCI to Income	Ineffective Results Recognized in Earnings	Location of Ineffective Results
7/31/09	Interest Rate contracts	$ (19)	Interest Income (Expense)	(55)	-	N/A
10/31/09	Interest Rate contracts	$ (16)	Interest Income (Expense)	(53)	-	N/A
1/31/10	Interest Rate contracts	$ (8)	Interest Income (Expense)	(48)	-	N/A
4/30/10	Interest Rate contracts	$ (1)	Interest Income (Expense)	(38)	-	N/A
7/31/10	Interest Rate contracts	$ (2)	Interest Income (Expense)	(30)	-	N/A
10/31/10	Interest Rate contracts	$ (1)	Interest Income (Expense)	(22)	-	N/A
01/31/11	Interest Rate contracts	-	Interest Income (Expense)	(17)	-	N/A

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	
July 31, 2010		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ 40

		Liability Derivatives	
October 31, 2010		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ 17

		Liability Derivatives	
January 31, 2011		Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments			
	Interest rate derivatives	Current Liabilities	$ -

NOTE 18 – Accrued Expenses

Accrued expenses consist of the following:

	January 31, 2011	July 31, 2010
Net smelter return	$ 409	$ 388
Mining contract	370	497
Income tax payable	4,518	1,900

Utilities		159		126
Interest		6		11
Legal and professional		228		70
Salaries, wages and related benefits		846		662
Leach pad expansion		150		-
Severance		263		1,279
Other liabilities		255		107
	$	7,204	$	5,040

NOTE 19 - Income Taxes

The Company's Income (loss) before income tax for the three and six months ended consisted of:

	(in thousands) For The Three Months Ended		(in thousands) For The Six Months Ended	
	January 31, 2011	January 31, 2010	January 31, 2011	January 31, 2010
United States	$ (1,668)	$ (2,317)	$ (5,317)	$ (4,224)
Foreign	10,484	7,539	20,459	14,105
Total	$ 8,816	$ 5,222	$ 15,142	$ 9,881

The Company's current intent is to permanently reinvest its foreign affiliate's earnings; accordingly, no U.S. income taxes have been provided for the unremitted earnings of the Company's foreign affiliate.

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 can be carried forward for a period of up to ten years to reduce any future flat tax.

On January 1, 2010, the Mexican government enacted legislation, which increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to 29% in 2013 and then back to 28% in 2014, according to legislation.

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. 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; in accordance with ASC guidance for income taxes. Net deferred tax benefits related to the U.S. operations have been fully reserved. 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.

NOTE 20 - Fair Value Measurements

ASC guidance for fair value measurements and disclosures 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 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 ASC guidance, 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 January 31, 2011 (in thousands)			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 2,804	$ 2,804	$ -	$ -
Marketable securities	181	181	-	-
	$ 2,985	$ 2,985	$ -	$ -

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.

NOTE 21 - Acquisition of Nayarit Gold, Inc.

Capital Gold Corporation ("Capital Gold") is a party to that certain Business Combination Agreement (the "Agreement"), dated as of February 10, 2010, as amended by Amendment No. 1 to the Agreement, dated as of April 29, 2010 and the Extension Agreement dated as of July 6, 2010, by and among Capital Gold, Nayarit Gold Inc. ("Nayarit"), John Brownlie, Colin Sutherland and Brad Langille. The Business Combination was consummated on August 2, 2010. As a result of the Business Combination, Nayarit became a wholly-owned subsidiary of the Company. In connection with the Business Combination, each outstanding share of Nayarit common stock was converted into 0.134048 shares of Capital Gold common stock, with cash paid in lieu of any fractional share. Capital Gold issued 12,453,363 shares of its common stock in the Business Combination to Nayarit's current stockholders and has reserved for issuance an additional 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the consummation of the Business Combination, the stockholders of Nayarit own approximately 20.4% of Capital Gold on a non-diluted basis.

Based on the closing price of the Company's common stock on August 2, 2010, the consideration received by Nayarit shareholders had a value of approximately $47.6 million as detailed below.

	Conversion Calculation	Estimated Fair Value	Form of Consideration
	(In thousands, except per share amounts)		
Number of Nayarit shares outstanding as of the Amalgamation date	92,910		
Exchange ratio(1)	0.134048		
Number of shares issued to Nayarit shareholders	12,454		
Value of Capital Gold common shares issued(1)	$ 3.71	$ 46,206	Capital Gold Common stock
Value of Nayarit's options and warrants to be exchanged for Capital Gold options and warrants (2)		1,393	Capital Gold Options and Warrants
Total consideration transferred		$ 47,599	

(1) In accordance with ASC 805, the fair value of equity securities issued as part of the consideration transferred was the closing market price of Capital Gold's common stock on the effective date of the Amalgamation. The shares issued were calculated by multiplying 0.134048 by 92,909,659, being the number of shares of Nayarit common stock outstanding on August 2, 2010. Nayarit shareholders own approximately 20.4% of the issued and outstanding shares of Capital Gold common stock.

(2) Represents the fair value to acquire 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. The fair value of the warrants and options were estimated using the Black-Scholes valuation model utilizing the assumptions noted below.

Stock price	$	3.71	
Post conversion strike price	$	3.28 - $9.92	
Average expected volatility		70	%
Dividend yield	None		
Average risk-free interest rate		0.29	%
Average contractual term	.79 years		
Black-Scholes average value per warrant and option	$	0.57	

The expected volatility of Capital Gold's stock price is based on the average historical volatility which is based on daily observations and duration consistent with the expected life assumption and implied volatility. The average contractual term of the warrants and options is based on the remaining contractual exercise term of each warrant and option. The risk free interest rate is based on U.S. treasury securities with maturities equal to the expected life of the warrants and options.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values as of the acquisition date. The following table summarizes the estimated fair values of major assets acquired and liabilities assumed on August 2, 2010:

		Fair Value (in thousands)
Cash and cash equivalents	$	50
Short-term investments		2
Prepaid expenses and sundry receivables		1,238
Property, plant and equipment		196
Mineral interests – indicated and inferred		43,780
Exploration interests		16,730
Goodwill		3,394
Accounts payable and liabilities assumed		(1,336)
Deferred tax liability		(16,455)
Net assets acquired	$	47,599

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. The Company's judgments used to determine the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results from operations. The Company's management allocated the acquisition cost to the assets acquired and liabilities assumed based on the estimated fair value of Nayarit's tangible and identifiable assets and liabilities. The amount allocated to the mineral and exploration interests was based on a valuation report prepared by a third party appraisal firm. The allocation is considered final as of the date of this report as management reviewed certain of the underlying assumptions and calculations used in the allocation to the assets and liabilities of Nayarit that were acquired.

During the six months ended January 31, 2011, the Company incurred transaction costs consisting primarily of legal, professional, investment advisory and accounting fees of $971. These costs are included in general and administrative expenses on the consolidated statement of operations.

Pro forma Information

The following unaudited pro forma results of operations of the Company for the six months ended January 31, 2011 and 2010 assume that the Nayarit acquisition had occurred on August 1, 2009. These unaudited pro forma results are not necessarily indicative of either the actual results of operations that would have been achieved had the companies been combined during these periods, nor are they necessarily indicative of future results of operations.

(in thousands)

		Six Months Ended January 31, 2011		Six Months Ended January 31, 2010
Revenues	$	38,989	$	24,955
Net income	$	8,242	$	4,231
Income per common share:				
Basic – net income	$	0.13	$	0.07
Diluted – net income	$	0.13	$	0.07

NOTE 22 – Definitive Agreement – Gammon Gold, Inc.

On October 1, 2010, the Company and Gammon Gold Inc. ("Gammon Gold") entered into a definitive merger agreement pursuant to which, if consummated, Gammon Gold will acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the "Gammon Transaction"). The total consideration for the purchase of 100% of the fully diluted shares of Capital Gold is approximately US$288 million or US$4.57 per Capital Gold share based on Gammon Gold's closing price on September 24, 2010 on the NYSE. The Gammon Transaction has the unanimous support of both companies' Boards of Directors and Officers. Under the terms of the Gammon Transaction, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold's shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. The consummation of the Gammon Transaction is subject to numerous contingencies as described in the related merger agreement including, but not limited to, Capital Gold stockholder approval. A special meeting of CGC's stockholders will be held on March 18, 2011.

On March 9, 2011, CGC, Gammon Gold and Capital Gold AcquireCo, Inc. entered into Amendment No. 2 to the Agreement and Plan of Merger, dated October 1, 2010, as amended on October 29, 2010, which provides for Gammon Gold to acquire CGC. Pursuant to the amendment, the termination fee payable by CGC, under certain circumstances, was reduced from $10.3 million to $5.75 million. In addition, Gammon Gold's ability to terminate the agreement for any reason with the payment of a $2 million termination fee was eliminated.

NOTE 23 – Subsequent Events

Legal Proceedings

Subsequent to the announcement of the merger, eleven putative shareholder class action complaints were filed challenging the transaction. Five complaints were filed in the Supreme Court of the State of New York, New York County, the New York Actions, and six were filed in the Delaware Court of Chancery, the Delaware Actions. The New York complaints captioned Jenkins v. Capital Gold Corp., et al., Index No. 651651/2010; Schroeder v. Capital Gold Corp., et al., Index No. 651652/2010; and Leone v. Capital Gold Corp., et al., Index No. 651690/2010, name as defendants the directors of CGC, as well as CGC and Gammon Gold. The New York complaint captioned Kramer v. Capital Gold Corp., et al., Index No. 651678/2010, names as defendants the directors of CGC, CGC's Chief Financial Officer and Secretary as well as CGC and Gammon Gold. The New York complaint captioned Stanford v. Cooper, et al., Index No. 651827/2010, names as defendants the directors of CGC, as well as CGC, Gammon Gold and Capital Gold AcquireCo, Inc., Gammon Gold's wholly-owned subsidiary. The New York plaintiffs allege generally that the CGC officers and directors breached their fiduciary duties to CGC stockholders by agreeing to an unfair price and an inappropriate sale process, and that the individual defendants agreed to the merger to benefit themselves personally at the expense of stockholder interests. The Kramer and Stanford complaints allege in addition that the proposed transaction involves unreasonable deal protection devices, including a nonsolicitation agreement, matching rights, and an unreasonable termination fee. The New York Actions further claim that CGC and Gammon Gold aided and abetted the purported breaches of fiduciary duties. The New York Actions seek injunctive relief, including enjoining the transaction and rescinding all agreements made in anticipation of the transaction or awarding the plaintiffs and the purported class rescissory damages. The New York Actions additionally seek attorneys' and other fees and costs, in addition to seeking other relief. On February 15, 2011, the New York court entered an order consolidating the New York actions, and on March 2, 2011, lead plaintiffs served an amended complaint. The defendants' date to answer or move to dismiss the consolidated complaints is April 18, 2011.

The Delaware complaints captioned Boehm v. Capital Gold Corp., et al. Case No. 5887-VCL; and Wood v. Capital Gold Corp., et al., Case No. 5920- , name as defendants the directors of CGC, as well as CGC, Gammon Gold, and Capital Gold AcquireCo, Inc. The Delaware complaint captioned Pait v. Sutherland, et al., Case No. 5899-VCN, names as defendants the directors of CGC and Gammon Gold. The Delaware complaints captioned Reggio v. Capital Gold Corp., et al., Case No. 5939- , Blumenthal v. Capital Gold Corp., Case No. 5940- , and McClure v. Capital Gold Corp., et al., Case No. 5945- , name as defendants CGC and its directors, as well as Gammon Gold. The Delaware Actions allege generally that the CGC directors breached their fiduciary duties to CGC's stockholders by agreeing to an unfair price, an inappropriate sale process, and unreasonable deal protection devices, including a non-solicitation agreement, matching rights, an unreasonable termination fee, and an impermissible director voting agreement. The Boehm, Wood, Reggio, Blumenthal and McClure complaints further claim that CGC, Gammon Gold, and/or Capital Gold AcquireCo, Inc. aided and abetted the purported breaches of fiduciary duties. The Delaware Actions seek injunctive relief, including enjoining the transaction, rescinding all agreements made in anticipation of the transaction or awarding the plaintiff and the purported class rescissory damages, and directing the individual defendants to account to the plaintiff and the purported class upon any damages suffered as a result of individual defendant wrongdoing. The Delaware Actions also seek attorneys' and other fees and costs, in addition to seeking other relief.

On November 2, 2010, a putative shareholder class action was filed regarding the Company's merger with Gammon, captioned Bromberg v. Capital Gold Corp., Case No. 651904/2010 (NY Sup.). The claims stated and relief sought are substantially identical to the claims made and relief sought in the Jenkins and Schroeder lawsuits referred above.

On Nov. 12, 2010, the Delaware Court of Chancery entered an Order of Consolidation and a Stipulation and Scheduling Order, whereby the Court, inter alia, consolidated the Delaware Actions except for Boehm, which had been withdrawn, and set a schedule for expedited discovery. On November 16, 2010, plaintiffs in the Delaware Actions filed an amended and consolidated class action complaint in the Court of Chancery. Answers to the amended and consolidated class action complaint, which deny the allegations and assert affirmative defenses, were filed on December 6, 2010, by defendants CGC and its directors, and on December 7, 2010, by defendants Gammon Gold and Gammon Gold AcquireCo.

On November 22, 2010, Helmut Boehm filed a suit in the United States District Court for the Southern District of New York, captioned Boehm v. Capital Gold, et al., 10-CIV-8818 (RMB), naming as defendants CGC and its directors, as well as Gammon Gold and Capital Gold AcquireCo. The complaint alleges that CGC and its directors violated Section 14(a) and Section 20(a) of the Securities Exchange Act by issuing or causing to be issued a registration statement containing material misleading statements and omissions. The complaint also asks the District Court to exercise its jurisdiction over putative class action claims under Delaware law against CGC and its directors for breach of fiduciary duty and against CGC, Gammon and Capital Gold AcquireCo for aiding and abetting breach of fiduciary duty. The basis for all claims and request for relief are substantially identical to those in the amended and consolidated class action complaint filed in Delaware. On February 25, 2011, defendants filed a joint motion to dismiss or stay the District Court action. The District Court granted Plaintiff Boehm's request to file a motion for a preliminary injunction to enjoin the motion as a cross-motion on or by March 4, 2011, and briefing on all motions is to be completed by March 12, 2011.

On March 9, 2011, counsel to the parties to the Delaware Actions entered into a Memorandum of Understanding ("MOU") that expresses an agreement in principle to settle the Delaware Actions, subject to approval by the Delaware Court of Chancery and on terms and conditions that include, among other things, certain supplemental disclosures that are contained in the supplement to the proxy filed on March 10, 2011, and certain amendments to the terms of the merger agreement, as discussed elsewhere in the supplement to the proxy. If the Delaware Court of Chancery approves the settlement contemplated in the MOU, upon approval of the settlement by the Delaware Vice Chancellor, a non-opt out class of Capital Gold shareholders will be certified and a final judgment will be entered dismissing the Delaware Actions with prejudice and releasing all claims that could be asserted by the class against the defendants relating to the proposed merger between Capital Gold and Gammon Gold, including any claims under federal law. Subject to court approval of the settlement, counsel for the purported class will apply to the Delaware Court of Chancery for reimbursement of its reasonable fees and expenses incurred in connection with the actions. The settlement will not take effect unless the merger between Gammon Gold and Capital Gold is consummated.

The defendants believe the Delaware Actions, the New York Actions and Boehm lack merit and intend to defend their positions in these matters vigorously to the extent they are not fully resolved by the settlement.

Timmins Gold

On February 10, 2011, Timmins Gold announced an offer for stockholders of the Company to exchange their shares of Common Stock directly for Timmins Shares (the “Exchange Offer”). The Exchange Offer is based on the same economic terms as the merger proposal submitted by Timmins Gold to the Company on September 3, 2010, September 17, 2010, October 12, 2010, December 2, 2010 and December 21, 2010, which the CGC Board, following lengthy deliberations and a careful review of all aspects of the proposal with management and its legal and financial advisors, concluded was not a superior proposal to the Gammon transaction and not in the best interests of the Company and its stockholders.

After conducting site due diligence, meeting with certain members of management of Timmins Gold, reviewing the operations of Timmins Gold and material provided by Timmins Gold, on January 31, 2011, the CGC Board concluded unanimously that the Timmins Merger Proposal did not constitute a superior proposal to the terms of the Gammon Merger. Such conclusion was based upon a variety of different factors, including a review and analysis of the Timmins Merger Proposal, the due diligence materials provided by Timmins Gold, the failure of Timmins Gold to substantiate its representation that it had the ability to pay the termination fee under the Gammon Merger Agreement and other costs and expenses of a transaction with the Company without risk to the future day-to-day operations of a combined entity, and the failure of Timmins Gold to provide all of the due diligence materials requested by the Company. On February 1, 2011, the M&A Committee notified Timmins Gold that the CGC Board resolved to terminate its consideration of the Timmins Merger Proposal because of its determination that such proposal is not a superior proposal to the terms of the Gammon Merger.

In addition to the Exchange Offer, Timmins Gold is soliciting consents in order to facilitate its ability to successfully consummate the Exchange Offer by asking our shareholders to: (i) repeal certain provisions of our by-laws, (ii) remove all members of our board of directors and (iii) elect certain individuals nominated by Timmins Gold to the Company’s board of directors. According to Timmins Gold’s preliminary consent statement, dated February 10, the Timmins nominees would be committed, subject to their duties as directors of the Company, to take action to expedite consummation of the Exchange Offer. In accordance with Delaware law and the Company’s By-laws, the Board set March 7, 2011 as the record date (the “Record Date”) for the determination of the Company’s stockholders who are entitled to execute, withhold or revoke consents relating to the Timmins Consent Solicitation. Only holders of record as of the close of business on the Record Date may execute, withhold or revoke consents with respect to the Timmins Consent Solicitation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(in thousands, except for per share and ounce amounts)

Cautionary Statement on Forward-Looking Statements

Certain statements in this report constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Certain of such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," or "anticipates" or the negative there other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. All statements other than statements of historical fact, included in this report regarding our financial position, business and plans or objectives for future operations are forward-looking statements. Without limiting the broader description of forward-looking statements above, we specifically note that statements regarding exploration, costs, grade, production and recovery rates, permitting, financing needs and the availability of financing on acceptable terms or other sources of funding are all forward-looking in nature.

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

We utilize certain Non-GAAP performance measures and ratios in managing the business and may provide users of this financial information with additional meaningful comparisons between current results and results in prior operating periods. Non-GAAP financial measures should be viewed in addition to, and not as an alternative to, the reported operating results or cash flow from operations or any other measure of performance prepared in accordance with accounting principles generally accepted in the United States. In addition, the presentation of these measures may not be comparable to similarly titled measures other companies use.

General

Capital Gold Corporation (the "Company", "we" , "our") is engaged in the mining, exploration and development of gold properties in Mexico. Our primary focus is on the operation and development of the El Chanate mine in Sonora, Mexico, as well as the development of our Orion Project in the State of Nayarit Mexico. Through our recent acquisition of Nayarit Gold, Inc. ("Nayarit") on August 2, 2010, we control approximately 257,000 acres (104,000 hectares) of mining concessions known as the Orion Project. The Orion Project lies in the Sierra Madre Occidental, a prolific mining district in Western Mexico. We also conduct gold exploration in other locations in Sonora, Mexico. (The financial data in this discussion is in thousands, except where otherwise specifically noted.)

On February 10, 2010, Capital Gold Corporation entered into a business combination agreement (the "Nayarit Business Combination Agreement"), as amended and extended, with Nayarit, a corporation organized under the Ontario Business Corporation Act ("OBCA") pursuant to which, on August 2, 2010, Nayarit became a wholly-owned subsidiary of Capital Gold (the "Nayarit Business Combination"). We effected the amalgamation (the "Amalgamation") of Nayarit and a corporation, organized under the OBCA as a wholly-owned subsidiary of the Company ("Merger Sub"), to form a combined entity ("AmalgSub" or "Surviving Company"), with AmalgSub continuing as the surviving entity following the Amalgamation. By virtue of the Amalgamation, the separate existence of each of Nayarit and Merger Sub cease, and AmalgSub, as the surviving company in the Amalgamation, continue its corporate existence under the OBCA as a wholly-owned subsidiary of the Company. Pursuant to the terms of the Nayarit Business Combination Agreement, all of the Nayarit shares of common stock (the "Nayarit Common Shares") issued and outstanding immediately prior to the consummation of the Nayarit Business Combination Agreement (other than Nayarit Common Shares held by dissenting stockholders of Nayarit) were exchanged into the Company's common stock on the basis of 0.134048 shares of Company common stock for each one (1) Nayarit Common Share (the "Amalgamation Consideration").

On October 1, 2010, the Company and Gammon Gold Inc. ("Gammon Gold") entered into a definitive merger agreement pursuant to which, if consummated, Gammon Gold will acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the "Gammon Transaction"). The total consideration for the purchase of 100% of the fully diluted shares of Capital Gold is approximately US$288 million or US$4.57 per Capital Gold share based on Gammon Gold's closing price on September 24, 2010 on the NYSE. The Gammon Transaction has the unanimous support of both companies' Boards of Directors and Officers. Under the terms of the Gammon Transaction, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold's shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. The consummation of the Gammon Transaction is subject to numerous contingencies as described in the related merger agreement including, but not limited to, Capital Gold stockholder approval.

On March 9, 2011, CGC, Gammon Gold and Capital Gold AcquireCo, Inc. entered into Amendment No. 2 to the Agreement and Plan of Merger, dated October 1, 2010, as amended on October 29, 2010, which provides for Gammon Gold to acquire CGC. Pursuant to the amendment, the termination fee payable by CGC, under certain circumstances, was reduced from $10.3 million to $5.75 million. In addition, Gammon Gold's ability to terminate the agreement for any reason with the payment of a $2 million termination fee was eliminated.

On February 10, 2011, Timmins Gold announced an offer for stockholders of the Company to exchange their shares of Common Stock directly for Timmins Shares (the "Exchange Offer"). The Exchange Offer is based on the same economic terms as the merger proposal submitted by Timmins Gold to the Company on September 3, 2010, September 17, 2010, October 12, 2010, December 2, 2010 and December 21, 2010, which the CGC Board, following lengthy deliberations and a careful review of all aspects of the proposal with management and its legal and financial advisors, concluded was not a superior proposal to the Gammon transaction and not in the best interests of the Company and its stockholders.

After conducting site due diligence, meeting with certain members of management of Timmins Gold, reviewing the operations of Timmins Gold and material provided by Timmins Gold, on January 31, 2011, the CGC Board concluded unanimously that the Timmins Merger Proposal did not constitute a superior proposal to the terms of the Gammon Merger. Such conclusion was based upon a variety of different factors, including a review and analysis of the Timmins Merger Proposal, the due diligence materials provided by Timmins Gold, the failure of Timmins Gold to substantiate its representation that it had the ability to pay the termination fee under the Gammon Merger Agreement and other costs and expenses of a transaction with the Company without risk to the future day-to-day operations of a combined entity, and the failure of Timmins Gold to provide all of the due diligence materials requested by the Company. On February 1, 2011, the M&A Committee notified Timmins Gold that the CGC Board resolved to terminate its consideration of the Timmins Merger Proposal because of its determination that such proposal is not a superior proposal to the terms of the Gammon Merger.

In addition to the Exchange Offer, Timmins Gold is soliciting consents in order to facilitate its ability to successfully consummate the Exchange Offer by asking our shareholders to: (i) repeal certain provisions of our by-laws, (ii) remove all members of our board of directors and (iii) elect certain individuals nominated by Timmins Gold to the Company's board of directors. According to Timmins Gold's preliminary consent statement, dated February 10, the Timmins nominees would be committed, subject to their duties as directors of the Company, to take action to expedite consummation of the Exchange Offer. In accordance with Delaware law and the Company's By-laws, the Board set March 7, 2011 as the record date (the "Record Date") for the determination of the Company's stockholders who are entitled to execute, withhold or revoke consents relating to the Timmins Consent Solicitation. Only holders of record as of the close of business on the Record Date may execute, withhold or revoke consents with respect to the Timmins Consent Solicitation.

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Receipt of Technical Report for Updated Reserves at El Chanate

During 2009, we conducted exploration activities in the El Chanate pit area including, core drilling at depth to determine the potential of increasing its reserves further. The data obtained from geological mapping of the deposit's mine pit areas, combined with assays from samples of the exploration drilling therein, were used to expand information in our mine database. SRK Consulting (U.S.), Inc. ("SRK") of Lakewood, Colorado, an independent consulting firm, used this data to re-estimate El Chanate's Mineral Reserves. These efforts resulted in a significant expansion of our reserve estimates, which we reported in our Form 10-K for the year ended July 31, 2009. With the receipt of SRK's technical report titled NI 43-101 Technical Report, Capital Gold Corporation, El Chanate Gold Mine, Sonora, Mexico and dated November 27, 2009 (the "SRK Report"), with respect to the updated reserve estimation and the updated mine plan and mine production schedule, current as of October 1, 2009, we re-published our previously announced reserve estimates along with additional information. The SRK Report complies with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"). Both Bart A. Stryhas PhD., Principal Resource Geologist, and Bret C. Swanson, BE(Mining), MAusIMM, are "Qualified Persons" as defined by NI 43-101.

Our proven and probable reserve tonnage increased to 70.6 million metric tonnes with an average gold grade of 0.66 grams per tonne (77.7 million US short tons at 0.0193 ounces per ton). The proven and probable reserve has 1,504,000 contained ounces of gold. The open pit strip ratio for the life of mine is 2.88:1 (2.88 tonnes of waste to one tonne of ore). For the next year, our mine plan anticipates the open pit strip ratio will average 2:1. Determination of operational pre-stripping (increase in strip ratio) will be made after further geological drilling and determination of corporate strategy within the three year window of opportunity. There is also the potential to improve the life of mine strip ratio as the report identifies material within the pit design classified as waste that with additional drilling could be reclassified as ore. The updated pit design for the revised mine plan is based on a plant recovery of gold that varies by rock types, but is expected to average 58.25%. A gold price of US$800 (SEC three year average as of October 1, 2009) per ounce was used to re-estimate the reserves compared with a gold price of $750 per ounce used in the previous reserve estimate. The stated proven and probable mineral reserves have been prepared in accordance with the Canadian Institute of Mining, Metallurgy and Petroleum (CIM). CIM definitions for proven and probable reserves convert directly from measured and indicated mineral resources with the application of appropriate economic parameters. These reserves are equivalent to proven and probable reserves as defined by the United States Securities and Exchange Commission (SEC) Industry Guide 7.

The following summary is extracted from the SRK Report. Please note that the reserves as stated are an estimate of what can be economically and legally recovered from the mine and, as such, incorporate losses for dilution and mining recovery. The 1,504,000 ounces of contained gold represents ounces of gold contained in ore in the ground, and therefore does not reflect losses in the recovery process. Total gold produced is estimated to be 876,000 ounces, or approximately 58.25% of the contained gold. The gold recovery rate is expected to average approximately 58.25% for the entire ore body. Individual portions of the ore body may experience varying recovery rates ranging from about 48% to 65%. Oxidized and sandstone ore types may have recoveries of about 65%; siltstone ore types recoveries may be about 48% and latite intrusive ore type recoveries may be about 50%.

El Chanate Mine

Production Summary

	Metric			U.S.	
Materials					
Reserves					
Proven	22.4 Million Tonnes @	0.70	g/t (1)	24.7 Million Tons @	0.0204 opt (1)
Probable	48.2 Million Tonnes @	0.65	g/t (1)	53.0 Million Tons @	0.0189 opt (1)

Total Reserves (2)	70.6 Million Tonnes @ 0.66 g/t (1)	77.7 Million Tons @ 0.0193 opt (1)
Waste	203.5 Million Tonnes	224.3 Million Tons
Total Ore/Waste	274.1 Million Tonnes	302.0 Million tons
Contained Gold	46.78 Million grams	1,504,000 Oz
Production		
Ore Crushed	5.4 Million Tonnes /Year	6.0 Million Tons/Year
	14,868 Mt/d (1)	16,390 t/d (1)
Operating Days/Year	365 Days per year	365 Days per year
Gold Plant Average Recovery	58.25%	58.25%
Average Annual Production	2.1 Million grams	67,391 Oz
Total Gold Produced	27.25 Million grams	876,080 Oz

(1) "g/t" means grams per metric tonne, "opt" means ounces per ton, "Mt/d" means metric tonnes per day and "t/d" means tons per day.

(2) The reserve estimates are mainly based on a gold cutoff grade of 0.15 g/t for sandstone and 0.19 grams for siltstone and latite within the pit design.

The SRK resource estimation is based on information from 371 holes for a total of 55,294 meters of drilling. There are 333 reverse circulation holes and 38 core holes. The drill holes were carefully logged, sampled and tested with gold fire assay (industry standard). A geological model was constructed based on four general rock groups which are cut by thrust faults and normal faults. The mineral resource model blocks are 6m (meters) x 6m x 6m. All block grade estimates were made using 6m bench composites. An ordinary Kriging algorithm was employed to generate a categorical indicator grade shell based on a 0.1ppm gold threshold. An inverse distance cubed algorithm was used for the gold grade estimation within the grade shells.

The life of mine plan used as the basis for the reserve is based on operating gold cutoff grades of 0.15 to 0.19 g/t, depending on the ore type to be processed. The internal (in-pit) and break even cutoff grade calculations are as follows:

Cutoff Grade Calculation Basic Parameters	Internal Cutoff Grade	Break Even Cutoff Grade
Gold Price	US$800/oz	US$800/oz
Gold Selling Cost (4% Royalty, Refining, Transport, Silver Credit, etc)	$25.258/oz	$25.258/oz
Gold Recovery*	58.25%	58.25%
Operating Costs per Tonne of Ore		
Mining		$1.08/tonne
Processing – Heap leach	$2.357/tonne	$2.357/tonne
Total	$2.357/tonne	$3.44/tonne
Cutoff Grade	Grams per Tonne	Grams per Tonne
Head Grade Cutoff (58.25% average recovery)	0.15 g/t gold	0.24 g/t gold
Recovered Gold Grade Cutoff	0.09 g/t gold	0.14 g/t gold

* Plant recovery of gold varies by rock type but weighted average gold recovery is expected to average 58.25% based on work done to date.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately $7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the aggregate capacity will be approximately 20.1 million tonnes. As of January 31, 2011, we have expended nearly $2,000 towards the construction of this new leach pad. The remaining capital expenditure is anticipated to be expended over the next four months. Site clearing was initiated in May 2010 and construction commenced in July 2010. We initiated stacking on the first panel of the leach pad on December 31, 2010. Stacking on additional panels have and will commence upon completion of the each panel until construction is complete which is anticipated by May 2011.

In July 2010, the Company commenced the use of belt agglomeration with cement which is added to the crushed ore at the El Chanate mine to improve the flow of leaching solution. We have engaged an independent consultant with respect to heap leaching optimization, which has resulted in recommendations to increase the barren solution flow to the leach pad, increase the pregnant solution flow to the recovery plant, and redirect the low grade solution to the leach pads. When fully implemented, these operational changes combined with the agglomeration with cement and barren solution may result in improvements in leaching time. We ordered two agglomeration drums which arrived on site and are now operational. The use of agglomeration drums will allow for better mixing of cement and lime with the crushed ore, producing a consistent quality control of the product. The belt agglomeration was a temporary measure until the drums were delivered and operational. The cost of these agglomeration drums and an additional overland conveyor is anticipated to be $2,000. The full amount was expended as of January 31, 2011.

In October 2009, we procured additional water rights at El Chanate that has enabled us to drill another water supply well. The new well was completed in October 2010 and will allow for a further increase in solution flow to the leach pads.

We commenced a reverse circulation drill program at our El Chanate mine in April 2010. The primary reason for the drilling is to replace depleted reserves and improve the forecast accuracy of the mine plan with infill holes. Drill holes will test the north pit wall for mineralization as well as the outer limits of the pit, and outlying prospective areas. The program is budgeted to continue through April 2011. The data from drilling will be used to update the block model for mine planning, and we plan to update our resource estimate before the end of our fiscal year ending July 31, 2011. Since April 2010 we have drilled 166 reverse circulation holes totaling approximately 20,507 meters.

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

Proven and probable mineral reserve (Ktonnes of ore)	January 31, 2011	July 31, 2010	July 31, 2009
Ore			
Beginning balance (Ktonnes)	66,712	40,911	35,417
Additions	-	30,388	9,342
Reductions	(2,497)	(4,587)	(3,848)
Ending Balance	64,215	66,712	40,911
Contained gold			
Beginning balance (thousand of ounces)	1,411	859	719
Additions	-	662	239
Reductions	(56)	(110)	(99)
Ending Balance	1,355	1,411	859

El Chanate is an open pit mining and heap leach processing operation. Ore is hauled by truck from the pits to the processing plant. The recovery of gold from certain gold ores is achieved through the heap leaching process. Under this method, ore is placed on impermeable leach pads where it is treated with dilute alkaline cyanide bearing solution, which dissolves gold and silver contained within the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. The processing is a closed circuit, solution is reused, and the process is designed to be zero discharge. The mining and other mobile equipment is mostly refurbished as is the smaller of the two Adsorption, Desorption, Refinery ("ADR") processing plants. All other equipment and infrastructure at the El Chanate mine were new when procured. Management continuously analyzes production results and considers improvements and modernizations as deemed necessary.

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Equipment and infrastructure include: A three stage crushing plant, a fleet of haul trucks, loaders and mining support equipment, a leach pad and solution holding ponds, two ADR processing plants, and a refinery. In addition, there are numerous ancillary support facilities including warehouses, maintenance shops, roadways, administrative offices, power and water supply systems, and a fully equipped assay and metallurgical laboratory.

El Oso Project - Saric Properties – Sonora, Mexico

In April 2008, we leased 12 mining concessions totaling 1,789 hectares located northwest of Saric, Sonora. In addition, we own a claim for approximately 2,233 additional hectares adjacent to this property. The approximate 4,022 hectare area is accessible by paved roads and has cellular phone service from hilltops. These concessions and this claim are about 60 miles northeast of the El Chanate project. Mineralization is evident throughout the concession group and is hosted by shear zones and stockwork quartz veins in volcanic and intrusive rocks. We have completed exploration work consisting of geological mapping, systematic geochemical sampling of rock and soils, geophysical surveys, trenching and 73 reverse circulation drill holes totaling 6,121 meters and more recently a one meter interval topographic survey over the concession area. SRK of Lakewood, Colorado has visited the site and has monitored the quality assurance and quality control during these drill campaigns. We anticipate SRK will assist on the next phase of the exploration program. All of the drill hole samples have been assayed by ALS Chemex. The ALS Chemex facility in Hermosillo does the sample preparation, and the assays are performed at the ALS Chemex's Vancouver laboratory.

In January 2010, we initiated an additional drill campaign at Saric that consisted of 13 core holes totaling approximately 1,100 meters. The drilling was completed on February 23, 2010 and targeted the existing mineralized structure to confirm the geologic interpretation and confirm the accuracy of previous reverse circulation drilling. The drill-hole samples were assayed by ALS Chemex. Currently, we are planning to initiate a geophysical survey in mid-2011. The intention of the geophysical survey is to assist us in determining the focus of our next drill campaign. We are advancing the land agreements and environmental permits to allow further disturbance associated with exploration on our mineral concessions.

The lease agreement required an initial payment of $45 upon execution of the lease. We are required to pay an additional $250, consisting of ten payments of $25 every four months beginning six months after execution of the lease agreement. The agreement also contains an option to acquire the mining concessions for a cash payment of $1,500 at the end of the term (December 2011). If we elect not to exercise this option, we would have the ability to mine the concessions by paying a 1% net smelter return to the owners of the leased concessions, capped at $3,000. Prior payments made under this lease agreement would be deductible from the $3,000 cap.

Orion Project

Through our recent acquisition of Nayarit on August 2, 2010, we control approximately 257,000 acres (104,000 hectares) of mining concessions known as the Orion Project. The Orion Project lies in the Sierra Madre Occidental, a prolific mining district in Western Mexico. Nayarit was a junior mineral exploration company that was incorporated in November, 2003 and became a public company by virtue of its amalgamation with Canhorn Chemical Corporation on May 2, 2005. With this recent acquisition, our plan is to continue exploration work on the Orion Project in the State of Nayarit, Mexico. As an exploration stage project, the Orion Project currently does not produce any gold. The original exploration focus was on the known mineralization of the La Estrella property, one of the original properties making up the Orion Gold Project. With expansion of the property area by almost 1200% in 2005 and 2006, other targets were identified and the strategy has taken on more of a district approach. A reconnaissance drill program initiated in 2007 throughout a small portion of the northern area in the concession resulted in the discovery of the Animas System, which was the focus of Nayarit's diamond drill program.

The Orion Project lies in the prolific Sierra Madre Occidental, which is known to host numerous multi-million ounce gold-silver deposits. The Orion Project is one of the larger contiguous concessions in the Sierra Madre, composed of 257,000 acres (104,000 hectares). The Orion Project is located on the southeast flank of the Sierra Madre, about 125km south of the famous Tayoltita district which has reserves reported to be in excess of 20 million gold equivalent ounces. The concessions are located approximately 110km north–northwest of Tepic, state capital of Nayarit, México, 150km southeast of Mazatlan, Sinaloa. The Orion Project is located 13 km south–southeast of the town of Acaponeta, Nayarit, in the Motaje Mining District as identified by the Servicio Geologico Mexicano (formerly the Consejo de Recursos Minerales). We anticipate progressing this project to a pre-feasibility stage by the second quarter 2011.

Nayarit Gold de Mexico, S.A. de C.V. ("Nayarit Mexico"), our wholly-owned subsidiary, has the exclusive right to explore and, as the case may be, exploit the "La Estrella" (title 196009) mining concession, in accordance with the terms of an exploration agreement (the "Exploration Agreement") dated November 28, 2003 which was entered into by and between Mr. Adrian Evodio Prado Gomez and Minera Portree de Zacatecas, S.A. de C.V., which conveyed its rights to Nayarit Mexico in accordance with the terms of a Conveyance Agreement dated May 20, 2004 (the "Conveyance Agreement") and amendments thereto dated May 17, 2004, July 29, 2004, November 28, 2007, November 28, 2008 and a letter of intent for a new amendment dated December 4, 2009 (the "Estrella Amendments").

For the exploration rights of La Estrella as described above, Nayarit Mexico has paid up to date the amount of $650 plus applicable Value Added Tax, and shall pay the following amounts in the dates indicated below, after which payment, Nayarit Mexico will acquire 100% interest to La Estrella concession:

(i) $100 plus applicable Value Added Tax, in December 8, 2010, which was paid;

(ii) $100 plus applicable Value Added Tax, in June 8, 2011;

(iii) $175 plus applicable Value Added Tax, in December 8; 2011

(iv) $175 plus applicable Value Added Tax, in June 8, 2012; and

(v) $350 plus applicable Value Added Tax, in December 8, 2012.

The Exploration Agreement and Amendments thereto may be terminated by Nayarit Mexico at any time through a written communication addressed to Prado.

Nayarit Mexico has the unlimited right to explore the following mining concessions ("Huajicari Concessions"), in accordance with the terms of and Exploration and Assignment Option Agreement of Mining Concessions (the "Option Agreement") dated May 8, 2008, which was entered into by and between Compañía Minera Huajicari, S.A. de C.V. ("Huajicari") and Nayarit Mexico and amendment thereto, dated December 10, 2009:

CLAIM	TITLE NUMBER
"San Juan Fracc. I"	205392
"San Juan Fracc. II"	205393
"San Francisco Tres"	203136
"San Juan I"	221365
"Isis"	214395
"San Miguel"	224392

For the exploration rights of the Huajicari Concessions as described above, Nayarit Mexico has paid the full amount of $2,500 as of January 31, 2011. As such, Nayarit Mexico has acquired 100% interest in the Huajicari Concessions in terms of a conveyance agreement that was formalized in early December 2010.

The term granted to Nayarit Mexico for the exploration of the above mentioned mining is 2 years commencing as of the date of execution of the Option Agreement but Nayarit Mexico may terminate the agreement at any time through a written communication addressed to Huajicari.

Nayarit Gold Inc. purchased the Orion Concession by Asset Purchase Agreement dated January 30, 2004. With respect to the Orion concession, Nayarit has granted a 3.5% net smelter return royalty payable to Belitung Limited, an Ontario incorporated company. Nayarit may purchase the royalty outright at any time for CDN$250 in cash or non-assessable common shares. In addition, Nayarit is also subject to a net profits interest on Orion of 10% payable to a previous property owner.

Table: Mining Concessions Controlled by Nayarit Gold de Mexico, SA de CV

Concession Name	Title	File No.	Owner	Surface (ha)
BONANZA I	227603	6923	NAYARIT GOLD DE MÉXICO SA de CV	200.00
EL DORADO	228887	7013	NAYARIT GOLD DE MÉXICO SA de CV	23,001.85
EL MAGNIFICO	221592	6758	NAYARIT GOLD DE MÉXICO SA de CV	7,595.74
EL MAGNIFICO F-I	221588	6758	NAYARIT GOLD DE MÉXICO SA de CV	6.90
EL MAGNIFICO F-II	221589	6758	NAYARIT GOLD DE MÉXICO SA de CV	32.00
EL MAGNIFICO F-III	221590	6758	NAYARIT GOLD DE MÉXICO SA de CV	6.96
EL MAGNIFICO F-IV	221591	6758	NAYARIT GOLD DE MÉXICO SA de CV	8.84
GROSS F I	228826	7002	NAYARIT GOLD DE MÉXICO SA de CV	67,148.77
GROSS F- II	228827	7002	NAYARIT GOLD DE MÉXICO SA de CV	16.00
ORION	205616	6253	NAYARIT GOLD DE MÉXICO SA de CV	527.50
REESE	227775	6980	NAYARIT GOLD DE MÉXICO SA de CV	3,104.29
SAN JUAN I	221365	3/1/639	COMPAÑIA MINERA HUAJICARI SA de CV	45.63
SAN FRANCISCO 3	203136	3/1.3/243	COMPAÑIA MINERA HUAJICARI SA de CV	32.75
SAN JUAN F - II	205393	6250	COMPAÑIA MINERA HUAJICARI SA de CV	0.81
ISIS	214395	6617	COMPAÑIA MINERA HUAJICARI SA de CV	101.34
SAN JUAN F-I	205392	6250	COMPAÑIA MINERA HUAJICARI SA de CV	1,339.01

SAN MIGUEL	224392	3/1/723	COMPAÑIA MINERA HUAJICARI SA de CV	1,177.38
LA ESTRELLA	196009	3/1.3/232	ADRIAN EVODIO PRADO GÓMEZ	146.35

Nayarit Gold has initiated the generation of an environmental impact assessment of the concession(s) (the "EIA") which is substantially complete. There are no known environmental liabilities on the Concession. We have received the environmental permits to initiate construction and have made the change of land use with the regulatory authority in Mexico. Notification to the regulatory authority is required before construction can begin and we are working on obtaining the explosives permit for mining purposes.

We continue to investigate other exploration projects in northern Mexico and other locations.

Result of Operations

Three months ended January 31, 2011 compared to three months ended January 31, 2010

Net income for the three months ended January 31, 2011 and 2010 was approximately $5,290 and $2,944, respectively, representing an increase of approximately 80% over the prior period. The primary reason for the increase in net income can be attributed to the increase in sales offset by the corresponding increase in costs applicable to sales during the current period as compared to the same period in the prior year.

Revenues & Costs Applicable to Sales

Gold sales for the three months ended January 31, 2011 totaled approximately $20,038 as compared to $13,228 in the prior period representing an increase of approximately $6,810 or 51%. We sold 14,573 ounces at an average realizable price per ounce of approximately $1,375 in the current period. We sold 11,816 ounces at an average realizable price per ounce of $1,119 during the same period last year.

Costs applicable to sales were approximately $7,676 and $4,625, respectively, for the three months ended January 31, 2011 and 2010, an increase of approximately $3,051 or 66%. Cash costs of $516 per ounce of gold sold for the three months ended January 31, 2011 was 39% higher than the $372 for the three months ended January 31, 2010. The primary reasons for this increase in cash cost per ounce sold in the current period were attributable to:

- An increase in mining costs of approximately $1,916 or 69% over the prior period. This was primarily due to higher mining contractor costs of approximately $1,206 or 79% compared to the prior period primarily due to an increase in tonnage mined of 1,457,000 tonnes or 65%, higher diesel fuel consumption of $487 due to an increase in tonnage mined and longer haul distance as the pit deepens, and higher explosive costs of $93 due to the increase in tonnage mined;

- Higher crushing costs of approximately of $493, an increase of 59% over the prior period, mainly due to: 1) an increase in tonnage going through the crushing circuit of 172,000 tonnes or 16% over the prior period; 2) an increase in electricity consumption and maintenance costs as well as an increase in the usage of crusher parts and supplies with the corresponding increase in tonnage; and 3) an increase in labor costs associated with the hiring of additional crusher operators;

- An increase in leaching and ADR plant costs of approximately $405 or 22% mainly due to a general increase in consumption of gold leaching chemicals and reagents as well as electricity usage in the processing of ore. The increased consumption can be mainly attributed to the increased tonnage processed during the current period as compared to the prior period as well as an the result of increasing the gold leaching chemicals and solution flow to the leach pad as we increased the level of lifts or height of the leach pad as well as the increased surface area under leach.

Total costs were $585 per ounce of gold sold for the three months ended January 31, 2011 as compared to $425 total cost per ounce sold in the prior period. The primary reason for this increase in total costs can be attributable to the reasons detailed above as well as the increase in depreciation and amortization resulting from additions to capital expenditures.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $744 and $290 for the three months ended January 31, 2011 and 2010, on silver ounces sold of 24,687 and 16,400, respectively.

Depreciation and Amortization

Depreciation and amortization expense during the three months ended January 31, 2011 and 2010 was approximately $1,030 and $624, respectively. The primary reason for the increase of approximately $406, or 65%, in the current period was due to an increase in depreciation and amortization charges related to property, plant and equipment additions.

General and Administration Expense

General and administrative expenses during the three months ended January 31, 2011 were approximately $1,430, a decrease of approximately $601, or 30%, from the three months ended January 31, 2010. The primary reason for the decrease in general and administrative expenses was due to lower salaries and wages of $348 and lower stock compensation expense of $586 related to the resignations of officers and directors in the prior year. This decrease in general and administrative expense was slightly offset by an in increase in legal expense of $318 mainly due to regulatory filings and litigation with regard to the merger and acquisition activity during the period as well as higher merger and acquisition related expenses of $171 related to the Gammon Gold transaction.

Exploration Expense

Exploration expense during the three months ended January 31, 2011 and 2010 was approximately $826 and $349, respectively, or an increase of $477, or 137%. The primary reason for the increase in exploration expense can be attributed to on-going exploration work being conducted at our Orion Project in Nayarit State, Mexico, not experienced in the prior period. We closed our business combination with Nayarit Gold Inc. on August 2, 2010, and have incurred exploration costs of $350 during the current period.

In addition, we initiated a reverse circulation drill program in April 2010. The primary reason for the drilling is to potentially replace depleted reserves and improve the forecast accuracy of our mine plan going forward with in-fill drill holes. This program is also designed to test the north pit wall for mineralization as well as outer limits of the pit and outlying prospective areas. We anticipate this program continuing until April 2011. The data from this drill program will be used to update the geological block model for mine planning purposes and to potentially update our reserve estimate before the end of our fiscal year ended July 31, 2011. Since April 2010, we have drilled 166 reverse circulation holes totaling approximately 20,507 meters.

Other Income and Expense

Interest expense was approximately $273 for the three months ended January 31, 2011 compared to approximately $344 for the same period a year earlier. This decrease was due to lower interest charges incurred during the current period, based on a lower average debt balance compared to the prior period. As of January 31, 2011 and 2010, there was $2,600 and $6,200, respectively, outstanding on our term note with Standard Bank.

Six months ended January 31, 2011 compared to six months ended January 31, 2010

Net income for the six months ended January 31, 2011 and 2010 was approximately $8,242 and $5,884, respectively, representing an increase of approximately 40% over the prior period. The primary reasons for the increase in net income can be attributed to the increase in sales offset by both an increase in costs applicable of sales in conjunction with that of the increase in sales and an increase in general and administrative expenses incurred during the current period as compared to the prior period. General and administrative costs increased $1,304 or 36% mainly due to our activity related to the business combination with Nayarit Gold Inc. that closed on August 2, 2010 and the proposed business combination with Gammon Gold. See “General and Administrative Expense” below for more detail of these costs that were incurred during the current period.

Due to the business combination with Nayarit Gold Inc. that closed on August 2, 2010, general and administrative costs, as well as exploration expense, increased for the six months ended January 31, 2011 by approximately $197 and $545, respectively, as compared to the prior period.

Revenues & Costs Applicable to Sales

Gold sales for the six months ended January 31, 2011 totaled approximately $38,989 as compared to $24,955 in the prior period representing an increase of approximately $14,034 or 56%. We sold 29,410 ounces at an average realizable price per ounce of approximately $1,326 in the current period. We sold 23,549 ounces at an average realizable price per ounce of $1,060 during the same period last year.

Costs applicable to sales were approximately $14,886 and $8,735, respectively, for the six months ended January 31, 2011 and 2010, an increase of approximately $6,151 or 70%. Cash costs of $495 per ounce of gold sold for the six months ended January 31, 2011 was 39% higher than the $355 for the six months ended January 31, 2010. The primary reasons for this increase in cash cost per ounce sold in the current period were attributable to:

- An increase in mining costs of approximately $3,800 or 70% over the prior period. This was primarily due to higher mining contractor costs of approximately $2,348 or 78% compared to the prior period primarily due to an increase in tonnage mined of 2,744,000 tonnes or 60%, higher diesel fuel consumption of $952 due to an increase in tonnage mined and longer haul distance as the pit deepens, and higher explosive costs of $270 due to the increase in tonnage mined;

- Higher crushing costs of approximately of $816, an increase of 51% over the prior period, mainly due to: 1) an increase in tonnage going through the crushing circuit of 276,000 tonnes or12% over the prior period; 2) an increase in electricity consumption of $177 as well as an increase in the usage of crusher parts and supplies of $404 with the corresponding increase in tonnage; and 3) an increase in labor costs of $235 associated with the hiring of additional crusher operators;

- An increase in leaching and ADR plant costs of approximately $782 or 22% mainly due to a general increase in consumption of gold leaching chemicals and reagents of $588 as well as electricity usage of $97 in the processing of ore. The increased consumption can be mainly attributed to the increased tonnage processed during the current period as compared to the prior period as well as an the result of increasing the gold leaching chemicals and solution flow to the leach pad as we increased the level of lifts or height of the leach pad as well as the increased surface area under leach.

Total costs were $562 per ounce of gold sold for the six months ended January 31, 2011 as compared to $407 total cost per ounce sold in the prior period. The primary reason for this increase in total costs can be attributable to the reasons detailed above as well as the increase in depreciation and amortization resulting from additions to capital expenditures.

Revenues from by-product sales, which consist of silver, are credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $1,291 and $544 for the six months ended January 31, 2011 and 2010, on silver ounces sold of 49,738 and 32,160, respectively.

Depreciation and Amortization

Depreciation and amortization expense during the six months ended January 31, 2011 and 2010 was approximately $1,990 and $1,224, respectively. The primary reason for the increase of approximately $766, or 63%, in the current period was due to an increase in depreciation and amortization charges related to property, plant and equipment additions.

General and Administration Expense

General and administrative expenses during the six months ended January 31, 2011 were approximately $4,964, an increase of approximately $1,304, or 36%, from the six months ended January 31, 2010. The primary reason for the increase in general and administrative expenses was due to: 1) an increase in merger and acquisition related expenses of $2,046, including investment advisory fees incurred as a result of the closing of the Nayarit Gold Inc. business combination as of August 2, 2010 ($880) as well as fees associated with obtaining a fairness opinion related to entering into a definitive agreement with Gammon Gold Inc. ($401); 2) increase in legal fees associated with the above referenced merger and acquisition activity including work related to regulatory filings and litigation of $415; and 3) decrease in salaries and wages of $684 and stock compensation expense of $588 due to resignations of officers and directors in the prior period.

Exploration Expense

Exploration expense during the six months ended January 31, 2011 and 2010 was approximately $1,449 and $681, respectively, or an increase of $768, or 113%. The primary reason for the increase in exploration expense can be attributed to on-going exploration work being conducted at our Orion Project in Nayarit State, Mexico. We closed our business combination with Nayarit Gold Inc. on August 2, 2010, and incurred exploration costs of $545 during the current period.

In addition, we initiated a reverse circulation drill program in April 2010. The primary reason for the drilling is to potentially replace depleted reserves and improve the forecast accuracy of our mine plan going forward with in-fill drill holes. This program is also designed to test the north pit wall for mineralization as well as outer limits of the pit and outlying prospective areas. We anticipate this program continuing until April 2011. The data from this drill program will be used to update the geological block model for mine planning purposes and to potentially update our reserve estimate before the end of our fiscal year ended July 31, 2011. Since April 2010, we have drilled 166 reverse circulation holes totaling approximately 20,507 meters.

Other Income and Expense

Interest expense was approximately $575 for the six months ended January 31, 2011 compared to approximately $720 for the same period a year earlier. This decrease was due to lower interest charges incurred during the current period, based on a lower average debt balance compared to the prior period. As of January 31, 2011 and 2010, there was $2,600 and $6,200, respectively, outstanding on our term note with Standard Bank.

Income Tax Expense

Income tax expense was $6,900 during the six months ended January 31, 2011, compared to $3,997 for the same period in the prior fiscal year. The factors that most significantly impacted our increase in income tax expense of $2,903 or 73% were the increase in income before taxes in the current period of $5,261 as compared to the prior year as well as the increase in the Mexican statutory tax rate from 28% to 30% that was enacted on January 1, 2010. The increase in income before taxes was primarily due to the increase in sales offset by an increase in costs applicable of sales in conjunction with that of the increase in sales.

Changes in Foreign Exchange Rates

During the six months ended January 31, 2011 and 2010, we recorded equity adjustments from foreign currency translations of approximately $3,636 and $100, respectively. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso, Canadian dollar and the U.S. dollar and are included as a component of other comprehensive income. The Mexican Peso and the U.S. dollar exchange rate as of January 31, 2011 was 12.2237. The Canadian dollar and the U.S. dollar exchange rate as of January 31, 2011 was $1.0017. As of July 31, 2010, the Mexican Peso and the U.S. dollar exchange rate was 12.7012.

Summary of Quarterly Results
(000's except per share Data)

	For the three months ended January 31, 2011	For the three months ended January 31, 2010	For the six months ended January 31, 2011	For the six months ended January 31, 2010
Revenues	$ 20,038	$ 13,228	$ 38,989	$ 24,955
Net Income	$ 5,290	$ 2,944	$ 8,242	$ 5,884
Basic net income per share	$ 0.09	$ 0.06	$ 0.13	$ 0.12
Diluted net income per share	$ 0.09	$ 0.06	$ 0.13	$ 0.12
Gold ounces sold	14,573	11,816	29,410	23,549
Average price received	$ 1,375	$ 1,119	$ 1,326	$ 1,060
Cash cost per ounce sold(1)	$ 516	$ 372	$ 495	$ 355
Total cost per ounce sold(1)	$ 585	$ 425	$ 562	$ 407

(1) "Cash costs per ounce sold" is a Non-GAAP measure which includes all direct mining costs, refining and transportation costs and by-product credits as well as royalties as reported in the Company's financial statements. “Total cost per ounce sold” is a Non-GAAP measure which includes “cash costs per ounce sold” as well as depreciation and amortization as reported in the Company's financial statements.

The following table reconciles the Non-GAAP measure "Cash costs per ounce sold" to the GAAP measure of "Costs applicable to sales per ounce sold":

Reconciliation from non-GAAP measure to US GAAP	For the Three Months Ended January 31, 2011	For the Three Months Ended January 31, 2010	For the Six Months Ended January 31, 2011	For the Six Months Ended January 31, 2010
Cash cost per ounce sold	$ 516	$ 372	$ 495	$ 355
Intercompany management fee	12	14	13	14
Other	(1)	5	(2)	2
Costs applicable to sales per ounce sold*	$ 527	$ 391	$ 506	$ 371

*This measurement excludes depreciation and amortization.

Summary of Results of Operations

	For the three months ended January 31, 2011	For the three months ended January 31, 2010	For the six months ended January 31, 2011	For the six months ended January 31, 2010
Tonnes of ore mined	1,276,664	1,097,645	2,497,904	2,233,537
Tonnes of waste removed	2,411,070	1,113,353	4,805,691	2,326,179
Ratio of waste to ore	1.89	1.03	1.92	1.04
Tonnes of ore processed	1,261,952	1,090,184	2,488,089	2,212,367
Grade (grams/tonne)	0.67	0.74	0.66	0.72
Gold (ounces)				
- Produced(1)	14,947	12,045	29,751	23,953
- Sold	14,573	11,816	29,410	23,549

(1) Gold produced each year does not necessarily correspond to gold sold during the year, as there is a time delay in the actual sale of the gold.

Liquidity and Capital Resources

Operating activities

Cash provided by operating activities during the six months ended January 31, 2011 and 2010 was $5,799 and $5,210, respectively. The primary reason for the increase in cash flow provided by operating activities was due to a higher ounces being sold at a higher realized gold price during the current quarter versus that of the same period in the prior year.

Investing Activities

Cash used in investing activities during the six months ended January 31, 2011, amounted to approximately $7,651, primarily due to leach pad expansion costs incurred during the current period, the procurement of agglomeration equipment, payments made regarding the Huajicari concessions, and additions to our asset retirement obligation. Cash used in investing activities during the six months ended January 31, 2010, amounted to approximately $4,922, primarily for the acquisition of an additional tertiary crusher and screen plant, additional water rights, as well as costs incurred for leach pad expansion.

In May 2010, we initiated the planning and permitting on the construction of an additional leach pad to the east of the existing leach pads. The total capacity of this additional leach pad will be approximately 8.5 million tonnes (when stacked to six lifts) and cost approximately $7,500. This pad will be expanded on the south, east and possibly west sides to accommodate the current ore reserve. When combined with the original and west pads the aggregate capacity will be approximately 20.1 million tonnes. As of January 31, 2011, we have expended nearly $3,558 towards the expansion of this new leach pad. The remaining capital expenditure is anticipated to be expended over the next four months. Site clearing was initiated in May 2010 and construction commenced in July 2010. We initiated stacking on the first panel of the leach pad on December 31, 2010. Stacking on additional panels have and will commence upon completion of the each panel until construction is complete which is anticipated by May 2011.

In July 2010, the Company commenced the use of belt agglomeration with cement which is added to the crushed ore at the El Chanate mine to improve the flow of leaching solution. We have engaged an independent consultant with respect to heap leaching optimization, which has resulted in recommendations to increase the barren solution flow to the leach pad, increase the pregnant solution flow to the recovery plant, and redirect the low grade solution to the leach pads. When fully implemented, these operational changes combined with the agglomeration with cement and barren solution may result in improvements in leaching time. We ordered two agglomeration drums which arrived on site and are now operational. The use of agglomeration drums will allow for better mixing of cement and lime with the crushed ore, producing a consistent quality control of the product. The belt agglomeration was a temporary measure until the drums were delivered and operational. The cost of these agglomeration drums and an additional overland conveyor is anticipated to be $2,154. The full amount was expended as of January 31, 2011.

For the exploration rights of the Huajicari Concessions, Nayarit Mexico paid the remaining $500 that was due under this agreement during the six months ended January 31, 2011. As such, Nayarit Mexico has acquired a 100% interest in the Huajicari Concessions under the terms of a conveyance agreement that was formalized in early December 2010.

Financing Activities

Cash used in financing activities during the six months ended January 31, 2011 amounted to approximately $1,437, primarily from repayments on the Credit Agreement in the amount of $1,800. We also received proceeds of approximately $358 in the current period from the issuance of common stock upon the exercising of 101,209 options. Cash used in financing activities during the six months ended January 31, 2010 amounted to approximately $1,893, primarily from repayments on the Credit Agreement in the amount of $1,800. We also received proceeds of approximately $53 during this period from the issuance of common stock upon the exercising of 125,000 options.

Business Combination Agreements

On October 1, 2010, the Company and Gammon Gold Inc. (“Gammon Gold”) entered into a definitive merger agreement pursuant to which Gammon Gold offered to acquire all of the issued and outstanding common shares of Capital Gold in a cash and share transaction (the “Gammon Transaction”). The total consideration for the purchase of 100% of the fully diluted shares of Capital Gold is approximately US$288 million or US$4.57 per Capital Gold share based on Gammon Gold’s closing price on September 24, 2010 on the NYSE. The Gammon Transaction has the unanimous support of both companies’ Boards of Directors and Officers. Under the terms of the Gammon Transaction, each common share of Capital Gold will be exchanged for 0.5209 common shares of Gammon Gold and a cash payment in the amount of US$0.79 per share. Based on the September 24, 2010 closing price of Capital Gold’s shares on the NYSE EURONEXT, the acquisition price represents a 20% premium to the close on September 24th and a 30% premium to the 20-day volume weighted average price on the NYSE EURONEXT ending on that date. The consummation of the Gammon Transaction is subject to numerous contingencies as described in the related merger agreement including, but not limited to, Capital Gold stockholder approval.

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On August 2, 2010, the Company acquired Nayarit Gold, Inc. (“Nayarit”). As a result of the Business Combination, Nayarit became a wholly-owned subsidiary of the Company. In connection with the Business Combination, each outstanding share of Nayarit common stock was converted into 0.134048 shares of Capital Gold common stock, with cash paid in lieu of any fractional share. Capital Gold issued 12,454,354 shares of its common stock in the Business Combination to Nayarit's current stockholders and has reserved for issuance an additional 1,621,981 and 903,483 shares of Capital Gold common stock upon the exercise of former Nayarit warrants and options, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the consummation of the Business Combination, the stockholders of Nayarit own approximately 20.4% of Capital Gold on a non-diluted basis.

Labor issues

The workforce at the El Chanate mine is currently non-unionized; however, a national labor union is seeking to permit workers to vote on whether or not they would like to organize under such labor union. CGC is reviewing its options with respect to the union’s activities. If the workforce were permitted to unionize, such activity could result in higher production costs at the El Chanate mine. The Labor Board of Mexico City has granted the aforementioned national labor union the right to vote to determine if such union should be permitted to represent the workforce. Prior to the date of the vote, CGC may enter into a voluntary agreement with the union. If CGC does not arrive at a voluntary agreement with the union, and the workforce votes to permit the union to represent it, CGC will be required to negotiate an agreement with the union. If the national labor union does not represent CGC’s workforce, CGC could continue as a non-unionized mine or elect to negotiate with a different union. The national labor union seeking to unionize CGC’s workforce may illegally interrupt operations at the El Chanate mine, which could have a material adverse effect on CGC’s business, financial condition or results of operations. On January 14, 2011, a vote was scheduled to be held at the mine site regarding a national labor union. The Labor Board of Mexico City had granted the national labor union the right to vote to determine if such union should be permitted to represent the workforce at El Chanate. The national labor union elected not to travel to site and conduct the vote to unionize on such date. As of the date of this filing, the mine site has the ability to continue as a non-unionized workforce or negotiate with a different union.

Term loan and Revolving Credit Facility

In September 2008, we closed an Amended And Restated Credit Agreement (the “Credit Agreement”) involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers (“Borrowers”), us, as guarantor, and Standard Bank PLC (“Standard Bank”), as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006. Under the Credit Agreement, MSR and Oro borrowed money in an aggregate principal amount of up to $12,500 (the “Term Loan”) for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. We guaranteed the repayment of the Term Loan and the performance of the obligations under the Credit Agreement. As of January 31, 2011, the outstanding amount on the term note was $2,600 and accrued interest on this agreement was approximately $6.

Term Loan principal shall be repaid quarterly and commenced on September 30, 2008 and consisted of four payments in the amount of $1,125, followed by eight payments in the amount of $900 and two final payments in the amount of $400. There is no prepayment fee. Principal under the Term Loan shall bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. An Interest Period can be one, two, three or six months, at the option of the Borrowers. The Applicable Margin for the Term Loan is 2.5% per annum. Pursuant to the terms of the Credit Agreement, operating accounts remain subject to an account pledge agreement between MSR and Standard Bank.

The Loan 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, pledged all of its ownership interest in MSR and Oro.

On June 30, 2010, Capital Gold Corporation ("Capital Gold" or the "Company") entered into the First Amendment to the Amended and Restated Credit Agreement (the "Amendment") by and among the Borrowers (as defined above), the Company, as guarantor, and Standard Bank, as the lender. The Amendment amends the Credit Agreement the parties entered into on September 18, 2008 with retroactive effect from July 17, 2008, which amended and restated the Credit Agreement between the parties dated August 15, 2006. The Credit Agreement provided for a senior secured term credit facility in the aggregate amount of $12,500 (the "Term Facility") and provided for a senior secured revolving credit facility in the aggregate principal amount of $5,000 (the "Revolving Facility"). Capital Gold guarantees all obligations of the Borrowers under the Term Facility and the Revolving Facility. The material amendments to the Credit Agreement contained in the Amendment are as follows:

The Amendment increases the Revolving Facility to $7,500. The Revolving Facility is available for a two-year period commencing June 30, 2010. The Borrowers may request a borrowing of the Revolving Facility from time to time, provided that each borrowing shall be in a minimum aggregate amount of $500. All amounts due under the Revolving Facility, including all accrued interest and other amounts described in the Credit Agreement, shall be due and payable on June 30, 2012.

Amounts borrowed under the Term Facility and the Revolving Facility bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable interest period plus the applicable margin. The applicable margin for the Revolving Facility was increased in the Amendment to 3.0% per annum.

The Borrowers are to use the proceeds of the Revolving Facility to fund general corporate and working capital requirements in connection with the El Chanate gold mining project and the Saric gold exploration project.

Debt Covenants

Capital Gold's Credit Agreement with Standard Bank, as amended, requires it, among other obligations, to meet certain financial covenants including, but not limited to, (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. $30,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. $500. In addition, the Credit Agreement restricts, among other things, Capital Gold's ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness. As a condition to closing the Nayarit Business Combination, Capital Gold obtained the consent of Standard Bank.

As of January 31, 2011, we and our related entities were in compliance with all debt covenants and default provisions.

Environmental and Permitting Issues

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. The Company complies with all laws, rules and regulations concerning mining, environmental, health, zoning and historical preservation issues and we are not aware of any environmental issues or reclamation issues at the El Chanate concessions. We have received the required Mexican government permits for operations. Any revisions to our mine plan may require us to amend the permits.

We received the annual extension to the explosive use permit from the relevant authorities. The permit is valid through December 2011.

We include environmental and reclamation costs on an ongoing basis, in our revenue and cost projections. No assurance can be given that environmental regulations will not be revised by the Mexican authorities in the future. As of January 31, 2011, we have estimated the reclamation costs for the El Chanate site to be approximately $4,782 if we had to reclaim the property as of that date. Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation for the mine site. We reviewed the estimated present value of the El Chanate mine reclamation and closure costs as of January 31, 2011 primarily due to the addition of the new leach pad in accordance with ASC guidance for asset retirement and environmental obligations. As of January 31, 2011, our reclamation and remediation liability was $2,769.

Recently Issued Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements contained in Item 1. Financial Statements above.

Disclosure About Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

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 ore is achieved through the heap leaching process. Under this method, 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 processing plant that extracts gold from this solution producing gold doré. Costs are applied to ore on leach pads based on current mining costs, including applicable depreciation, depletion and amortization relating to the mining operation. 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.

Mineral Reserves

Critical estimates are inherent in the process of determining our reserves. Our reserves are affected largely by our assessment of future metals prices, as well as by engineering and geological estimates of ore grade, accessibility and production cost. Metals prices are estimated at long-term averages. Our assessment of reserves occurs periodically and we utilize external firms to conduct such reserve estimates.

Reserves are a key component in valuation of our properties, plants and equipment. Reserve estimates are used in determining appropriate rates of units-of-production depreciation, with net book value of many assets depreciated over remaining estimated reserves. Reserves are also a key component in forecasts, with which we compare future cash flows to current asset values to ensure that carrying values are reported appropriately. Reserves also play a key role in the valuation of certain assets in the determination of the purchase price allocations for our acquisitions. Reserves are a culmination of many estimates and are not guarantees that we will recover the indicated quantities of metals.

Property, Plant and Mine Development

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

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

Goodwill

Goodwill is not amortized and is assessed for impairment at the reporting unit level on at least an annual basis. Any potential goodwill impairment is identified by comparing the fair value of a reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value of the reporting unit exceeds its fair value, a potential goodwill impairment has been identified and must be quantified by comparing the estimated fair value of the reporting unit’s goodwill to its carrying value. Any goodwill impairment will result in a reduction in the carrying value of goodwill on the consolidated balance sheet and in the recognition of a non-cash impairment charge in operating income.

The Company’s goodwill relates exclusively to the acquisition of Nayarit Gold Inc. including its mineral property and exploration property interests.

Impairment of Long-Lived Assets

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

Reclamation and Remediation Costs (Asset Retirement Obligations)

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and closure costs. The asset retirement obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. We review, on an annual basis, unless otherwise deemed necessary, the asset retirement obligation at our mine site in accordance with ASC guidance for asset retirement and environmental obligations.

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Deferred Financing Costs

Deferred financing costs which were included in other assets 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 our policy to assess periodically the carrying amount of our purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of intangible assets are determined in accordance with ASC guidance for intangibles. There was no impairment at January 31, 2011.

Fair Value of Financial Instruments

The carrying value of our financial instruments, including cash and cash equivalents, marketable securities, loans receivable, accrued expenses and accounts payable approximated fair value because of the short maturity of these instruments. The carrying amount of the Company's accounts receivable balance approximates fair value. The carrying value of the Company's long-term debt approximates fair value due to the variable nature of its interest rate.

Revenue Recognition

Revenue is recognized from the sale of gold doré 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 doré's precious metal content and its weight. The Company sells approximately 95% of the precious metal content contained within the doré 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 doré precious metal content is pledged to the customer at the refinery to recognize the sale because collectability is not ensured until the doré 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 consist of silver, will be credited to Costs applicable to sales as a by-product credit. By-product sales amounted to $1,291 and $544 for the three months ended January 31, 2011 and 2010.

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

On October 1, 2007, the Mexican Government enacted legislation which introduces certain tax reforms as well as a new minimum flat tax system, which was effective for tax year 2008. 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 for tax year 2010, which increased from 17% for tax year 2009. 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. For the tax year 2010, the Mexican Government introduced a reform where if the flat tax is negative, companies will not be permitted to reduce the income tax, as it may only serve to reduce the regular flat tax payable in that year or can be carried forward for a period of up to ten years to reduce any future flat tax.

On January 1, 2010, the Mexican government enacted legislation, which increases the regular income tax rate from 28% to 30%. The regular income tax rate will decrease to 29% in 2013 and then back to 28% in 2014, according to legislation.

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. This legislation 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. In accordance with ASC guidance for income taxes, 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.

Equity Based Compensation

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

We account for stock compensation under ASC guidance for compensation – stock compensation, which requires the Company to expense the cost of employees services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

Accounting for Derivatives and Hedging Activities

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

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

The interest rate swap agreements 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 is excluded from the assessment of hedge effectiveness.

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

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk. (in thousands, except for per share and ounce amounts)

Metal Price

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

Foreign Currency

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

Interest Rate Swap Contracts

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

Item 4. Controls and Procedures.

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This term refers to the controls and procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within the required time periods. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our President and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report. They have concluded that, as of that date, our disclosure controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Subsequent to the announcement of the merger, eleven putative shareholder class action complaints were filed challenging the transaction. Five complaints were filed in the Supreme Court of the State of New York, New York County, the New York Actions, and six were filed in the Delaware Court of Chancery, the Delaware Actions. The New York complaints captioned Jenkins v. Capital Gold Corp., et al., Index No. 651651/2010; Schroeder v. Capital Gold Corp., et al., Index No. 651652/2010; and Leone v. Capital Gold Corp., et al., Index No. 651690/2010, name as defendants the directors of CGC, as well as CGC and Gammon Gold. The New York complaint captioned Kramer v. Capital Gold Corp., et al., Index No. 651678/2010, names as defendants the directors of CGC, CGC's Chief Financial Officer and Secretary as well as CGC and Gammon Gold. The New York complaint captioned Stanford v. Cooper, et al., Index No. 651827/2010, names as defendants the directors of CGC, as well as CGC, Gammon Gold and Capital Gold AcquireCo, Inc., Gammon Gold's wholly-owned subsidiary. The New York plaintiffs allege generally that the CGC officers and directors breached their fiduciary duties to CGC stockholders by agreeing to an unfair price and an inappropriate sale process, and that the individual defendants agreed to the merger to benefit themselves personally at the expense of stockholder interests. The Kramer and Stanford complaints allege in addition that the proposed transaction involves unreasonable deal protection devices, including a nonsolicitation agreement, matching rights, and an unreasonable termination fee. The New York Actions further claim that CGC and Gammon Gold aided and abetted the purported breaches of fiduciary duties. The New York Actions seek injunctive relief, including enjoining the transaction and rescinding all agreements made in anticipation of the transaction or awarding the plaintiffs and the purported class rescissory damages. The New York Actions additionally seek attorneys' and other fees and costs, in addition to seeking other relief. On February 15, 2011, the New York court entered an order consolidating the New York actions, and on March 2, 2011, lead plaintiffs served an amended complaint. The defendants' date to answer or move to dismiss the consolidated complaints is April 18, 2011.

The Delaware complaints captioned Boehm v. Capital Gold Corp., et al. Case No. 5887-VCL; and Wood v. Capital Gold Corp., et al., Case No. 5920- , name as defendants the directors of CGC, as well as CGC, Gammon Gold, and Capital Gold AcquireCo, Inc. The Delaware complaint captioned Pait v. Sutherland, et al., Case No. 5899-VCN, names as defendants the directors of CGC and Gammon Gold. The Delaware complaints captioned Reggio v. Capital Gold Corp., et al., Case No. 5939- , Blumenthal v. Capital Gold Corp., Case No. 5940- , and McClure v. Capital Gold Corp., et al., Case No. 5945- , name as defendants CGC and its directors, as well as Gammon Gold. The Delaware Actions allege generally that the CGC directors breached their fiduciary duties to CGC's stockholders by agreeing to an unfair price, an inappropriate sale process, and unreasonable deal protection devices, including a non-solicitation agreement, matching rights, an unreasonable termination fee, and an impermissible director voting agreement. The Boehm, Wood, Reggio, Blumenthal and McClure complaints further claim that CGC, Gammon Gold, and/or Capital Gold AcquireCo, Inc. aided and abetted the purported breaches of fiduciary duties. The Delaware Actions seek injunctive relief, including enjoining the transaction, rescinding all agreements made in anticipation of the transaction or awarding the plaintiff and the purported class rescissory damages, and directing the individual defendants to account to the plaintiff and the purported class upon any damages suffered as a result of individual defendant wrongdoing. The Delaware Actions also seek attorneys' and other fees and costs, in addition to seeking other relief.

On November 2, 2010, a putative shareholder class action was filed regarding the Company's merger with Gammon, captioned Bromberg v. Capital Gold Corp., Case No. 651904/2010 (NY Sup.). The claims stated and relief sought are substantially identical to the claims made and relief sought in the Jenkins and Schroeder lawsuits referred above.

On Nov. 12, 2010, the Delaware Court of Chancery entered an Order of Consolidation and a Stipulation and Scheduling Order, whereby the Court, inter alia, consolidated the Delaware Actions except for Boehm, which had been withdrawn, and set a schedule for expedited discovery. On November 16, 2010, plaintiffs in the Delaware Actions filed an amended and consolidated class action complaint in the Court of Chancery. Answers to the amended and consolidated class action complaint, which deny the allegations and assert affirmative defenses, were filed on December 6, 2010, by defendants CGC and its directors, and on December 7, 2010, by defendants Gammon Gold and Gammon Gold AcquireCo.

On November 22, 2010, Helmut Boehm filed a suit in the United States District Court for the Southern District of New York, captioned Boehm v. Capital Gold, et al., 10-CIV-8818 (RMB), naming as defendants CGC and its directors, as well as Gammon Gold and Capital Gold AcquireCo. The complaint alleges that CGC and its directors violated Section 14(a) and Section 20(a) of the Securities Exchange Act by issuing or causing to be issued a registration statement containing material misleading statements and omissions. The complaint also asks the District Court to exercise its jurisdiction over putative class action claims under Delaware law against CGC and its directors for breach of fiduciary duty and against CGC, Gammon and Capital Gold AcquireCo for aiding and abetting breach of fiduciary duty. The basis for all claims and request for relief are substantially identical to those in the amended and consolidated class action complaint filed in Delaware. On February 25, 2011, defendants filed a joint motion to dismiss or stay the District Court action. The District Court granted Plaintiff Boehm’s request to file a motion for a preliminary injunction to enjoin the motion as a cross-motion on or by March 4, 2011, and briefing on all motions is to be completed by March 12, 2011.

On March 9, 2011, counsel to the parties to the Delaware Actions entered into a Memorandum of Understanding (“MOU”) that expresses an agreement in principle to settle the Delaware Actions, subject to approval by the Delaware Court of Chancery and on terms and conditions that include, among other things, certain supplemental disclosures that are contained in the supplement to the proxy filed on March 10, 2011, and certain amendments to the terms of the merger agreement, as discussed elsewhere in the supplement to the proxy. If the Delaware Court of Chancery approves the settlement contemplated in the MOU, upon approval of the settlement by the Delaware Vice Chancellor, a non-opt out class of Capital Gold shareholders will be certified and a final judgment will be entered dismissing the Delaware Actions with prejudice and releasing all claims that could be asserted by the class against the defendants relating to the proposed merger between Capital Gold and Gammon Gold, including any claims under federal law. Subject to court approval of the settlement, counsel for the purported class will apply to the Delaware Court of Chancery for reimbursement of its reasonable fees and expenses incurred in connection with the actions. The settlement will not take effect unless the merger between Gammon Gold and Capital Gold is consummated.

The defendants believe the Delaware Actions, the New York Actions and Boehm lack merit and intend to defend their positions in these matters vigorously to the extent they are not fully resolved by the settlement.

Item 1A. Risk Factors

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

Risks related to our business and operations

While Capital Gold believes that it will continue to generate positive cash flow and profits from operations, if it encounters unexpected problems, it may need to raise additional capital. If additional capital is required and Capital Gold is unable to obtain it from outside sources, Capital Gold may be forced to reduce or curtail its operations or its anticipated exploration activities.

Prior to the first fiscal quarter of 2008, Capital Gold was not able to generate cash flow from operations. While it is now generating positive cash flow and profits, if Capital Gold encounters unexpected problems and it is unable to continue to generate positive cash flow and profits, it may need to raise additional capital. Capital Gold also may need to raise additional capital for property acquisition and development and new exploration. To the extent that Capital Gold needs to obtain additional capital, management intends to raise such funds through the sale of its securities and/or joint venturing with one or more strategic partners. Capital Gold cannot assure that adequate additional funding, if needed, will be available or on terms acceptable to it. If Capital Gold needs additional capital and it is unable to obtain it from outside sources, Capital Gold may be forced to reduce or curtail its operations or its anticipated exploration activities.

Capital Gold’s Credit Agreement with Standard Bank plc (“Standard Bank”) imposes restrictive covenants on it.

Capital Gold’s Credit Agreement with Standard Bank requires it, among other obligations, to meet certain financial covenants including, but not limited to, (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. $30,000,000, (iii) maintain a ratio of debt to cash flow from operations of no greater than 2.50:1.00, and (iv) a quarterly average minimum liquidity of U.S. $500,000. In addition, the Credit Agreement restricts, among other things, Capital Gold’s ability to incur additional debt, create liens on its property, dispose of any assets, merge with other companies, enter into hedge agreements, organize or invest in subsidiaries or make any investments above a certain dollar limit. A failure to comply with the restrictions contained in the Credit Agreement could lead to an event of default thereunder which could result in an acceleration of such indebtedness.

Capital Gold’s mining contractor is using some reconditioned equipment which could adversely affect its cost assumptions and its ability to economically and successfully mine the project.

Sinergia Obras Civiles Y Mineras, S.A. de C.V. (“Sinergia”), Capital Gold’s mining contractor, is using a combination of fully functioning new and older equipment. Such older equipment is subject to the risk of more frequent breakdowns and need for repair than new equipment. If the equipment that Capital Gold or Sinergia uses breaks down and needs to be repaired or replaced, Capital Gold will incur additional costs and operations may be delayed, resulting in lower amounts of gold recovered. In such event, Capital Gold’s capital and operating cost assumptions may be inaccurate and its ability to economically and successfully mine the El Chanate project may be hampered, resulting in decreased revenues and, possibly, a loss from operations.

The gold deposit Capital Gold has identified at El Chanate is relatively low-grade. If Capital Gold’s estimates and assumptions are inaccurate, its results of operation and financial condition could be materially adversely affected.

The gold deposit Capital Gold is mining at its El Chanate mine is relatively low-grade. If the estimates of ore grade or recovery rates turn out to be lower than the actual ore grade and recovery rates, if costs are higher than expected, or if Capital Gold experiences problems related to the mining, processing, or recovery of gold from ore at the mine, Capital Gold’s results of operation and financial condition could be materially adversely affected. Moreover, it is possible that actual costs and economic returns may differ materially from Capital Gold’s best estimates. There can be no assurance that Capital Gold’s operations at El Chanate will continue to be profitable.

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

The profitability of any gold mining operations in which Capital Gold has an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. During the year ended January 31, 2011, the spot price for gold on the London Exchange has fluctuated between $1,058.00 and $1,421.00 per ounce. Gold prices are affected by numerous factors beyond Capital Gold's control, including:

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

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

Capital Gold's material property interests are in Mexico. Risks of doing business in a foreign country could adversely affect its results of operations and financial condition.

Capital Gold faces risks normally associated with any conduct of business in a foreign country with respect to its El Chanate Project in Sonora, Mexico, and its wholly owned subsidiary's Orion Gold Project in the State of Nayarit, Mexico, including various levels of political and economic risk. The occurrence of one or more of these events could have a material adverse impact on Capital Gold's efforts or operations which, in turn, could have a material adverse impact on its cash flows, earnings, results of operations and financial condition. These risks include the following:

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

- import and export regulations, including restrictions on the export of gold, and
- foreign exchange controls.

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

High levels of violence in Mexico may adversely affect Capital Gold's exploration of its Saric concessions.

Recently, fighting among rival drug cartels has led to unprecedented levels of violent crime in Mexico. The security of Capital Gold's exploration activities is an important consideration, and this situation presents several risks to Capital Gold's exploration activity in Saric, including, among others, that our employees or contractors may be directly affected by the violence which could delay the Company's ability to execute its strategic plans. In response to such threats, Capital Gold may reduce its exploration activities in the areas of and surrounding its Saric concessions, and it may further reduce or cease entirely such activities in these areas. Such reduction or cessation of exploration could materially and adversely affect Capital Gold's exploration efforts.

Capital Gold sells gold in U.S. dollars; however, it incurs a significant amount of its expenses in Mexican pesos. If applicable currency exchange rates fluctuate, Capital Gold's revenues and results of operations may be materially and adversely affected.

Capital Gold sells gold in U.S. dollars. It incurs a significant amount of its expenses in Mexican pesos. As a result, Capital Gold's financial performance would be affected by fluctuations in the value of the Mexican peso to the U.S. dollar.

Changes in regulatory policy could adversely affect Capital Gold's exploration and future production activities.

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

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

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

As Capital Gold currently does not enter into forward sales, commodity, derivatives or hedging arrangements with respect to its future gold production, it is exposed to the impact of any significant decrease in the gold price.

As a general rule, Capital Gold sells its gold at the prevailing market price. Currently, Capital Gold generally does not enter into forward sales, commodity, derivative or hedging arrangements to establish a price in advance for the sale of future gold production, although it may do so in the future. As a result, Capital Gold may realize the benefit of any short-term increase in the gold price, but is not protected against decreases in the gold price, and if the price of gold decreases significantly, Capital Gold's revenues may be materially adversely affected.

Compliance with environmental regulations could adversely affect Capital Gold's exploration and future production activities.

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

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

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

Capital Gold has insurance against losses or liabilities that could arise from its operations. If it incurs material losses or liabilities in excess of its insurance coverage, its financial position could be materially and adversely affected.

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

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

Such risks could result in:

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

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

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

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

Capital Gold is dependent on the efforts of certain key personnel and contractors to develop Capital Gold's El Chanate Project and Orion Project. If Capital Gold loses the services of these persons and contractors and it is unable to replace them, Capital Gold's operations at its El Chanate Project may be disrupted and/or materially adversely affected.

Capital Gold is dependent on a relatively small number of key personnel who oversee the El Chanate Project and the Orion Project. The loss of any one of Capital Gold's key personnel could have an adverse effect on Capital Gold. Capital Gold also is dependent upon Sinergia to provide mining services. Sinergia commenced mining operations on March 25, 2007, and transitioned from the pre-production to production phase of the mining contract in July 2007. Sinergia's mining fleet is comprised of new and reconditioned equipment. If Capital Gold loses the services of its key personnel, or if Sinergia is unable to effectively maintain its fleet, operations at its El Chanate Project may be disrupted and/or materially adversely affected.

There are uncertainties as to title matters in the mining industry. Capital Gold believes that it has good title to its properties; however, any defects in such title that cause Capital Gold to lose its rights in mineral properties could jeopardize its business operations.

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

Capital Gold's ability to maintain long-term profitability eventually will depend on its ability to find, explore and develop additional properties. Capital Gold's ability to acquire such additional properties could be hindered by competition. If Capital Gold is unable to acquire, develop and economically mine additional properties, it most likely will not be able to be profitable on a long-term basis.

Gold is a non-renewable resource and gold mines continue to deplete their reserves while in operation. They eventually become depleted of ore or become uneconomical to sustain mining operations. The acquisition of gold properties and their exploration and development are subject to intense competition. Companies with greater financial resources and larger staffs for exploration and development may be in a better position than Capital Gold to compete for such mineral properties. If Capital Gold is unable to find, develop and economically mine new properties, Capital Gold most likely will not be able to be profitable on a long-term basis.

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

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

- the location of economic ore bodies,
- development of appropriate metallurgical processes,

- receipt of necessary governmental approvals, and
- construction of mining and processing facilities at any site chosen for mining.

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

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

The effect of these factors cannot be accurately predicted.

Risks Related to Ownership of Capital Gold Stock

The issuance of a significant number of Capital Gold shares could adversely affect the market price of Capital Gold shares.

We completed the business combination with Nayarit on August 2, 2010; consequently, a significant number of additional shares of Capital Gold common stock became available for trading in the public market. The increase in the number of Capital Gold shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Capital Gold shares.

The NYSE EURONEXT may delist Capital Gold's securities from its exchange which could limit investors' ability to make transactions in Capital Gold's common stock and subject it to additional trading restrictions.

Capital Gold's common stock is listed on the NYSE EURONEXT, a national securities exchange. Although Capital Gold expects to continue to meet the minimum continued listing standards, it cannot assure you that its securities will continue to be listed on the NYSE EURONEXT in the future.

If the NYSE EURONEXT delists Capital Gold's common shares from trading on its exchange, Capital Gold could face significant material adverse consequences, including:

- a limited availability for market quotations for Capital Gold's common stock;
- reduced liquidity with respect to Capital Gold's common stock;
- a determination that Capital Gold's common stock is a "penny stock," which will require brokers trading in the common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for Capital Gold's common stock;
- limited amount of news and analyst coverage for Capital Gold's common stock; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

In addition, Capital Gold would no longer be subject to NYSE EURONEXT rules, including rules requiring Capital Gold to have a certain number of independent directors and to meet other corporate governance standards.

Capital Gold does not intend to pay cash dividends in the near future.

Capital Gold’s board of directors determines whether to pay cash dividends on its issued and outstanding shares. The declaration of dividends will depend upon Capital Gold’s future earnings, its capital requirements, its financial condition and other relevant factors. Capital Gold’s board does not intend to declare any dividends on its shares for the foreseeable future. Capital Gold anticipates that it will retain any earnings to finance the growth of its business and for general corporate purposes.

Additional Risks and Uncertainties related to the Business Combination with Nayarit completed August 2, 2010, and the combined entity

Having a reduced share position, as a result of the Nayarit Business Combination, may reduce the influence that Capital Gold’s stockholders have on the management of Capital Gold.

On August 2, 2010, Capital Gold issued approximately 12,454,354 shares of its common stock in the Nayarit Business Combination to Nayarit's then current stockholders and assumed warrants and options to purchase an additional approximately 1,621,981 and 903,483 shares of Capital Gold common stock held by Nayarit's warrant and option holders, respectively. Based on the number of outstanding shares of Nayarit common stock and Capital Gold common stock, after the Amalgamation, the former stockholders of Nayarit own approximately 20.4% of Capital Gold. Consequently, the ability of the continuing stockholders of Capital Gold following the Nayarit Business Combination to influence management of Capital Gold through the election of directors has been substantially reduced.

If the Nayarit Business Combination’s benefits do not meet the expectations of financial or industry analysts, the market price of Capital Gold’s securities may decline.

The market price of Capital Gold’s securities may decline as a result of the consummation of the Nayarit Business Combination if:

- the Company does not achieve the perceived benefits of the Nayarit Business Combination as rapidly, or to the extent anticipated by, financial or industry analysts; or

- the effect of the Nayarit Business Combination on Capital Gold’s financial results is not consistent with the expectations of financial or industry analysts.

Accordingly, investors may experience a loss as a result of a decline in the market price of Capital Gold’s securities. A decline in the market price of Capital Gold’s securities also could adversely affect its ability to issue additional securities and its ability to obtain additional financing in the future.

The combined company may not realize the benefits currently anticipated due to challenges associated with integrating the operations of Capital Gold and Nayarit.

The success of the combined company will depend in large part on the success of management of the combined company integrating the operations of Nayarit with those of Capital Gold going forward. The failure of the combined company to achieve such integration could result in the failure of the combined company to realize the anticipated benefits of the Nayarit Business Combination and could impair the results of operations, profitability, and financial results of the combined company.

There can be no assurance that Capital Gold or Nayarit uncovered every item that could have a material adverse effect on the combined company.

Although Capital Gold conducted business, financial and legal due diligence in connection with the Nayarit Business Combination, there can be no assurance that due diligence uncovered every item that could have a material adverse effect on the combined company. Accordingly, there may be matters involving Nayarit and its financial statements that were not identified during their due diligence. Any of these issues could materially and adversely affect the combined company's financial condition.

Additional risks and uncertainties related to our proposed merger with Gammon Gold Inc. which could materially adversely affect our business, financial condition or operating results.

Our merger with Gammon Gold is subject to certain conditions to closing that could result in the merger not being consummated or being delayed, either of which could negatively impact our stock price and future business and results of operations.

Consummation of the merger is subject to a number of customary conditions, including, but not limited to, the approval of the agreement and plan of merger by the stockholders of Capital Gold. There is no assurance that Capital Gold will receive the necessary approvals or satisfy the other conditions necessary for completion of the merger. If any of the conditions to the merger are not satisfied or, where waiver is permissible, not waived, the merger will not be consummated. Failure to complete the merger would prevent Capital Gold from realizing the anticipated benefits of the merger. Capital Gold has already and expects to continue to incur significant costs associated with transaction fees, professional services, taxes and other costs related to the merger. In the event that the merger is not completed, Capital Gold will remain liable for these costs and expenses. Furthermore, if the merger is not consummated, under some circumstances we may be required to promptly pay a $5.75 million breakup fee to Gammon, which could impact Capital Gold's liquidity and results of operations. In addition, the current market price of Capital Gold common stock may reflect a market assumption that the merger will occur, and a failure to complete the merger could result in a negative perception by the market of us generally and a resulting decline in the market price of our common stock. Any delay in the consummation of the merger or any uncertainty about the consummation of the merger could also negatively impact Capital Gold's stock price and future business and results of operations. We cannot assure you that the merger will be consummated, that there will be no delay in the consummation of the merger or that the merger will be consummated on the terms contemplated by the merger agreement.

Whether or not the merger is completed, the announcement and pendency of the merger could impact or cause disruptions in our business, which could have an adverse effect on our business and results of operations.

Whether or not the merger is consummated, the announcement and pendency of the merger could cause disruptions in or otherwise negatively impact our business and results of operations. Among others:

- our employees may experience uncertainty about their future roles with the combined company, which might adversely affect our ability to retain and hire key personnel and other employees;

- the attention of our management may be directed toward the completion of the merger and transaction-related considerations and may be diverted from the day-to-day operations and pursuit of other opportunities that could have been beneficial to our business; and

- distributors or other vendors or suppliers may seek to modify or terminate their business relationships with us.

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These disruptions could be exacerbated by a delay in the completion of the merger or termination of the merger agreement and could have an adverse effect on our business, results of operations or prospects if the merger is not completed or the business, results of operations or prospects of the combined company if the merger is completed.

Several lawsuits have been filed against Capital Gold and other parties challenging the Gammon Transaction, and an adverse judgment in such lawsuits may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

Capital Gold, the members of Capital Gold’s board of directors, Gammon Gold, and in some instances Capital Gold’s CFO have been named as defendants in purported class action lawsuits brought by Capital Gold stockholders challenging the proposed Gammon Transaction, seeking, among other things, to enjoin the defendants from consummating the Gammon Transaction on the agreed-upon terms.

The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm our reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A temporary or permanent injunction could delay or prevent completion of the Gammon Transaction and such delay or failure of the transaction could cause the adverse results discussed above.

A judgment or settlement that is not covered by or is significantly in excess of our insurance coverage for any claims, or our obligations to indemnify the individual defendants, could materially and adversely affect our financial condition, results of operations and cash flows.

See "Item 1. Legal Proceedings" for more information about the putative class action lawsuits related to the Gammon Transaction that have been filed.

The price of Capital Gold’s shares may decline if no business combination transaction approved.

Following the announcement that Capital Gold may enter into a business combination transaction, Capital Gold’s share price materially appreciated. The public markets may have already priced the perceived value of the post-business combination company into the price of Capital Gold’s common stock. Therefore, if a business combination is not consummated, Capital Gold’s share price may decline.

The Timmins Gold Consent Solicitation may disrupt Capital Gold’s management and operations.

Timmins Gold has filed a consent solicitation with the Securities and Exchange Commission to remove Capital Gold’s board of directors and replace the board with its own slate of directors. The directors selected by Timmins Gold have no mining industry experience. If the consent solicitation is launched and is successful, the new board may implement changes which could disrupt the management and/or operations of Capital Gold, which could adversely affect our results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4 Removed and reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's President.
31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.
32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's President.
32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 from the Company's Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL GOLD CORPORATION

Date: March 14, 2011	By:	/s/ Colin Sutherland Colin Sutherland President and Director (Principal Executive Officer)
Date: March 14, 2011	By:	/s/ Christopher M. Chipman Christopher M. Chipman Chief Financial Officer (Principal Financial Officer)