

CAPITAL GOLD CORP  
Form 10-Q  
December 20, 2004

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2004

OR

TRANSITION REPORT UNDER 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 small business issuer as specified in its charter)

NEVADA  
(State or other jurisdiction of  
incorporation or organization)

13-3180530  
(I.R.S. Employer  
Identification No.)

76 Beaver Street, 26<sup>TH</sup> floor, New York, NY 10005

(Address of principal executive offices)

Issuer's telephone number: (212) 344-2785

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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 December 10, 2004
Common Stock, par value \$.001 per share	60,984,362

Transitional Small Business Format (check one); Yes  No

**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 accruals), which we consider necessary for the fair presentation of results for the three months ended October 31, 2004.

Moreover, these financial statements do not purport to contain complete disclosure in conformity with generally accepted accounting principles and should be read in conjunction with our audited financial statements at, and for the fiscal year ended July 31, 2004.

The results reflected for the three months ended October 31, 2004 are not necessarily indicative of the results for the entire fiscal year.

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*CONSOLIDATED BALANCE SHEET*  
*OCTOBER 31, 2004*  
(Unaudited)

*ASSETS*

Current Assets:	
Cash and Cash Equivalents	\$ 112,878
Loans Receivable - Affiliate	27,753
Loans Receivable - Others	1,965
Prepaid Expenses	6,843
Marketable Securities	175,000
Other Current Assets	24,172
	<hr/>
Total Current Assets	348,611
	<hr/>
Mining Concessions	44,780
	<hr/>
Other Assets:	
Other Investments	9,983
Mining Reclamation Bonds	35,550
Security Deposits	8,435
	<hr/>
Total Other Assets	53,968
	<hr/>
Total Assets	\$ 447,359
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*LIABILITIES AND STOCKHOLDERS' EQUITY*

Current Liabilities:	
Accounts Payable	\$ 79,435
Accrued Expenses	115,452
	<hr/>
Total Current Liabilities	194,887

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Commitments and Contingencies

Stockholders' Equity:

Common Stock, Par Value \$.001 Per Share;	
Authorized 150,000,000 shares; Issued and	
Outstanding 60,107,061 Shares	60,107
Additional Paid-In Capital	24,966,966
Deficit Accumulated in the Development Stage	(24,934,224)
Accumulated Other Comprehensive Income (Loss)	159,623
	<hr/>
Total Stockholders' Equity	252,472
	<hr/>
Total Liabilities and Stockholders' Equity	\$ 447,359
	<hr/>

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

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

	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 2004
	2004	2003	
Revenues	\$	\$	\$
Costs and Expenses:			
Mine Expenses	179,968	146,330	6,992,502
Write-Down of Mining, Milling and Other Property and Equipment			1,299,445
Selling, General and Administrative Expenses	152,007	139,255	9,009,936
Stock Based Compensation	29,260	33,034	9,251,263
Depreciation			367,726
	<hr/>	<hr/>	<hr/>
Total Costs and Expenses	361,235	318,619	26,920,872
	<hr/>	<hr/>	<hr/>
Loss From Operations	(361,235)	(318,619)	(26,920,872)
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Other Income (Expense):			
Interest Income	235	174	753,750
Miscellaneous	4,905		37,582

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	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 2004
Gain on Sale of Property and Equipment			46,116
Gain on Sale of Subsidiary			31,903
Option Payment			70,688
Loss on Write-Off of Investment			(10,000)
Loss on Joint Venture			(901,700)
Loss on Option			(50,000)
Loss on Other Investments			(3,697)
Loss on Write-Off of Minority Interest			(150,382)
Total Other Income (Expense)	5,140	174	1,700,260
Loss Before Minority Interest	(356,095)	(318,445)	(25,220,612)
Minority Interest		24,548	286,388
Net Loss	\$ (356,095)	\$ (293,897)	\$ (24,934,224)
Net Loss Per Common Share Basic and Diluted	\$ (.01)	\$ (.01)	
Weighted Average Common Shares Outstanding	58,746,129	45,150,223	

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

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

	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 2004
	2004	2003	
Cash Flow From Operating Activities:			
Net Loss	\$ (356,095)	\$ (293,897)	\$ (24,934,224)
Adjustments to Reconcile Net Loss to Net Cash (Used) By Operating Activities:			
Depreciation			367,726
Gain on Sale of Subsidiary			(1,907,903)
Minority Interest in Net Loss of Subsidiary		(24,548)	(286,388)
Write-Down of Impaired Mining, Milling and Other Property and Equipment			1,299,445
Gain on Sale of Property and Equipment			(46,116)

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	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 1982
Loss on Write-Off of Investment			To 10,000
Loss on Joint Venture			October 31, 1982
Loss on Write-Off of Minority Interest			150,382
Value of Common Stock Issued for Services			2,813,893
Stock Based Compensation	29,260	33,034	9,251,263
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Prepaid Expenses	1,651	(9,000)	(6,843)
(Increase) Decrease in Other Current Assets	6,076	(2,023)	(24,172)
(Increase) in Security Deposits		(1,164)	(8,435)
Increase (Decrease) in Accounts Payable	(8,651)	(36,158)	71,618
(Decrease) in Accrued Expenses	(621)	(5,659)	(7,092)
Net Cash (Used) By Operating Activities	(328,380)	(339,415)	(12,355,146)
Cash Flow From Investing Activities:			
(Increase) in Other Investments	(93)		(9,983)
Purchase of Mining, Milling and Other Property and Equipment			(1,705,650)
Proceeds on Sale of Mining, Milling and Other Property and Equipment			83,638
Proceeds From Sale of Subsidiary			2,131,616
Expenses of Sale of Subsidiary			(101,159)
Advance Payments - Joint Venture			98,922
Investment in Joint Venture			(101,700)
Investment in Privately Held Company			(10,000)
Net Assets of Business Acquired (Net of Cash)			(42,130)
Investment in Marketable Securities			(50,000)
Net Cash Provided By (Used) In Investing Activities	(93)		293,554

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

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

	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 2004
	2004	2003	
Cash Flow From Financing Activities:			
(Increase) in Loans Receivable Affiliate	\$	\$ (139)	\$ (27,848)
Increase (Decrease) in Loans Receivable Others		325	(2,065)
Increase in Loans Payable - Officers			18,673

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	For The Three Months Ended October 31,		For The Period September 17, 1982 (Inception) To October 31, 2004
Repayment of Loans Payable - Officers			(18,673)
Payments of Note Payable			(11,218)
Proceeds From Issuance of Common Stock	226,820	82,400	12,262,419
Commissions on Sale of Common Stock			(5,250)
Expenses of Initial Public Offering			(408,763)
Capital Contributions - Joint Venture Subsidiary		112,516	304,564
Purchase of Certificate of Deposit - Restricted			(5,000)
(Purchase) of Mining Reclamation Bonds			(30,550)
	<hr/>	<hr/>	<hr/>
Net Cash Provided By Financing Activities	226,820	195,102	12,087,507
	<hr/>	<hr/>	<hr/>
Effect of Exchange Rate Changes	6,088	23,721	86,963
	<hr/>	<hr/>	<hr/>
Increase (Decrease) In Cash and Cash Equivalents	(95,565)	(120,592)	112,878
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents - Beginning	208,443	246,410	
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents - Ending	\$ 112,878	\$ 125,818	\$ 112,878
	<hr/>	<hr/>	<hr/>
Supplemental Cash Flow Information:			
Cash Paid For Interest	\$	\$	
	<hr/>	<hr/>	<hr/>
Cash Paid For Income Taxes	\$	\$	\$ 32,155
	<hr/>	<hr/>	<hr/>
Non-Cash Financing Activities:			
Issuances of Common Stock as Commissions on Sales of Common Stock	\$ 18,200	\$	\$ 458,695
	<hr/>	<hr/>	<hr/>
Issuance of Common Stock as Payment for Mining, Milling and Other Property and Equipment	\$	\$	\$ 4,500
	<hr/>	<hr/>	<hr/>

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

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CAPITAL GOLD CORPORATION  
(A DEVELOPMENT STAGE ENTERPRISE)  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2004  
(Unaudited)

NOTE 1 *Basis of Presentation*

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The accompanying unaudited condensed consolidated financial statements include the accounts of Capital Gold Corporation and its subsidiaries, which are wholly and majority owned. All significant inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-QSB. 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.

Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

The condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company is a development stage enterprise and has recurring losses from operations and operating cash constraints that raise substantial doubt about the Company's ability to continue as a going concern.

### NOTE 2 - *Marketable Securities*

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

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

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

Marketable equity securities, at cost	\$ 50,000
	<u>          </u>
Marketable equity securities, at fair value	\$ 175,000
	<u>          </u>

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*CAPITAL GOLD CORPORATION*  
*(A DEVELOPMENT STAGE ENTERPRISE)*  
*NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*  
*OCTOBER 31, 2004*  
(Unaudited)

### NOTE 3 - *Stockholders' Equity*

#### *Common Stock*

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

During the three months ended October 31, 2004, the Company issued 1,926,732 shares for gross proceeds of \$226,820. During the three months ended October 31, 2004 the Company issued 259,507 shares of common stock for services rendered value at \$29,260. During the three months ended October 31, 2004 the Company issued \$151,666 shares of common

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stock valued at \$18,200 as commissions on the sale of common stock.

### NOTE 4 - *Other Comprehensive Income (Loss) Supplemental Non-Cash Investing Activities*

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

Balance	July 31, 2004	\$	88,739
	Equity Adjustments from Foreign		
	Currency Translation		5,884
	Unrealized Gains on Available-for-		
	Sale Securities		65,000
			<hr/>
Balance	October 31, 2004	\$	159,623
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## Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

### *Cautionary Statement on Forward-Looking Statements*

Some information contained in or incorporated by reference into this report on Form 10-QSB may contain forward-looking statements, as defined in Section 21E of the Securities and Exchange Act of 1934. These statements include comments regarding exploration and mine development and construction plans, costs, grade, production and recovery rates, permitting, financing needs, the availability of financing on acceptable terms or other sources of funding, and the timing of additional tests, feasibility studies and environmental permitting. The use of any of the words anticipate, continue, estimate, expect, may, will, project, should, believe and similar expressions are intended to identify uncertainties. We believe the expectations reflected in those forward-looking statements are reasonable. However, we cannot assure you that these expectations will prove to be correct. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and other factors set forth in, including the section Issues and Uncertainties below, or incorporated by reference into, this report:

worldwide economic and political events affecting the supply of and demand for gold;

volatility in market prices for gold and other metals;

financial market conditions, and the availability of debt or equity financing on terms acceptable to us;

uncertainties as to whether additional drilling, testing and feasibility studies will establish reserves at any of our properties;

uncertainties associated with developing a new mine, including potential cost overruns and the unreliability of estimates in early states of mine development;

uncertainties as to title to our properties and the availability of sufficient properties to allow for planned activities at El Chanate in Mexico and at Leadville in Colorado;

variations in ore grade and other characteristics affecting mining, crushing, milling and smelting operations and mineral recoveries;

geological, metallurgical, technical, permitting, mining and processing problems;

the availability and timing of acceptable arrangements for power, transportation, mine construction, contract mining, water and smelting; the availability, terms conditions and timing of required government approvals;



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uncertainties regarding future changes in tax and foreign-investment legislation or implementation of existing tax and foreign-investment legislation;

the availability of experienced employees; and

political instability, violence and other risks associated with operating in a country like Mexico with a developing economy.

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Many of those factors are beyond our ability to control or predict. You should not unduly rely on these forward-looking statements. These statements speak only as of the date of this report on Form 10-QSB. Except as required by law, we are not obligated to publicly release any revisions to these forward-looking statements to reflect future events or developments. All subsequent written and oral forward-looking statements attributable to us and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section and elsewhere in this report on Form 10-QSB.

### *Results of Operation*

#### *General*

##### *Sonora, Mexico*

During the quarter ended October 31, 2004, we continued to analyze the El Chanate concessions in Mexico. Our property holdings there consist of 14 contiguous, high priority concessions totaling approximately 3,497 hectares (8,642 acres or 13.5 square miles). Further exploration and development of the El Chanate project, assuming it is economically feasible, will mostly occur on these concessions owned by us. We also own outright 466 hectares (1,151 acres or 1.8 square miles) of surface rights at El Chanate and no third party ownership or leases exist on this fee land or the El Chanate concessions.

In August 2003, M3 Engineering of Tucson, Arizona completed a feasibility study (the Study) on the El Chanate concessions. Based on 253 drill holes and more than 22,000 gold assays, the study provides details for an open pit gold mine. The Study indicates that at a gold price of \$325, the initial open pit project contains proven and probable reserves of 358,000 ounces of gold contained within 13.5 million metric tonnes of ore with an average grade of 0.827 grams/tonne. It estimated that the mine could recover approximately 48,000 - 50,000 ounces of gold per year over a five year mine life.

The study assumes a production rate of 2.6 million tonnes of ore per year or 7,500 tonnes per day, operating at 345 days per year. The processing plan for this open pit heap leach gold project calls for crushing the ore to 100% minus 3/8 inch. Carbon columns will be used to recover the gold. If financing for the project is obtained and required permitting is completed by the end of 2004, and if the necessary mining plant, equipment and facilities are acquired, an adequate water supply is secured, and power lines to the mine are constructed, we anticipate, but cannot assure, that the mine will commence full commercial production in December of 2005.

Pursuant to the Study, based on the current reserve calculations, the mine life is estimated to be 62 months. The study forecasts initial capital costs of \$13.8 million, which includes \$2.1 million of working capital. Average initial annual production is planned at approximately 48,000 to 50,000 ounces per year at an average operating cash cost of \$229 per ounce. This cash cost may decrease as the production rate increases. Total costs will vary depending upon the price of gold (due to the nature of underlying payment obligations to the original owner of the property); they are estimated to range between \$292 per ounce at a gold price of \$310 per ounce and \$299 per ounce at a gold price of \$370 per ounce. We will be working on measures to attempt to reduce costs going forward. Reserves and production rates are based on a gold price of \$325 per ounce, which is the Base Case of the Study. Between January 1, 2004 and November 30, 2004, the fixed price for gold on the London Exchange has fluctuated between \$373 and \$453 per ounce.

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Management believes that the capital costs to establish a surface, heap leach mining operation at El Chanate may approximate \$16 million. Financing, is being sought through bank loans, the sale of equity and/or joint venturing. In this regard, we had executed a royalty financing term sheet with Royal Gold, Inc., of Denver, Colorado to supply the \$13.8 million, as specified in

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the Study. However, in April 2004, we and Royal Gold mutually agreed not to proceed because the parties could not agree on final terms. We believe that equity financing may provide certain attractive alternative sources of project funding and we are exploring those possibilities. Unless and until we obtain adequate financing on acceptable terms, we will not be able to move forward with full-scale construction of the mine. Even if we are able to obtain adequate financing, there can be no assurance that we will be able to establish and open a mine at El Chanate or that any mining will be profitable.

Management believes the project will benefit substantially from rising gold prices, which are currently well above \$400 per ounce. Mineralized material previously below operating cut-off gold grades could possibly become economic if future engineering studies support lowering the cutoff grade due to gold prices substantially above the \$325 per ounce used in the feasibility study to define the proven and probable reserves mentioned above. We are currently looking at equipment and processing techniques that may be capable of supporting higher production rates that may be justified due to rising gold prices.

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

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

Metallurgical column test studies are now underway at Metcon's laboratories in Tucson Arizona to determine the optimal conditions at El Chanate for recovering gold from within siltstone host rocks using heap leach technology. The siltstone drill core samples are being tested at crush sizes of 100 percent 3/8 inch and 100 percent 1/4 inch, and these column tests are showing encouraging recovery rates. If these gold recoveries are within an economic range and with rising gold prices, management believes the ore reserves may be increased beyond the level currently published in the feasibility study. While we are optimistic about the results, there can be no assurance that improved gold recoveries will result in an increase in reserves.

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In January 2004, we received permits from the Mexican Department of Environmental Affairs and Natural Resources necessary to begin construction of the El Chanate gold mining project. These permits also cover the operation of a heap-leach gold recovery system.

### *Leadville, Colorado*

During the three months ended October 31, 2004, as during the prior fiscal year ended July 31, 2004, activity at our Leadville, Colorado properties consisted principally of mine maintenance. Primarily as a result of our focus on El Chanate, we temporarily reduced to a minimum activity in Leadville, Colorado. During the year ended July 31, 2002, we performed a review of our Leadville mine and mill improvements and determined that an impairment loss should be realized. Therefore, we significantly reduced the carrying value of certain assets relating to our Leadville, Colorado assets by \$999,445. During the year ending July 31, 2004, we again performed a review of our Colorado mine and mill improvements and determined that an additional impairment loss should be recognized. Accordingly, we further reduced the net carrying value to \$0, recognizing an additional loss of \$300,000.

Between November 1, 2002 and December 1, 2003, we conditionally acquired 61 properties in Leadville, Colorado having a gross acreage of approximately 342 acres. Some of the properties are classified as residential and others are classified as mining. All were purchased at the Lake County, Colorado, tax sale for the back taxes due on the properties. We paid an aggregate of approximately \$25,100 for the properties. Of these properties, we let 9 lapse and, with regard to 11 of these properties, we were paid off by the property owners and we received back our payments for these properties, plus interest at 11% or 12%, depending on the year of redemption.

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If a property owner does not pay his property taxes the county treasurer has the right to put the property up for auction at an advertised county tax sale. Sometimes, the property owner will ask the treasurer to postpone the auction of the property for a year with the promise to pay soon. If taxes are still not paid, the auction bidder will be required to pay two years of taxes. If we pay the back taxes and then current year taxes for four consecutive years, and apply for a treasurer's deed, our ownership of a given property purchased at tax sale is final, and the deed is transferred to us. If the property owner can pay the back taxes, he is required to pay us the back taxes plus interest. The current back tax interest rate is 12% in Lake County.

We acquired these properties, especially the residential properties, as an investment. We are not required to commit to any work or maintenance on any of the properties at this time. Management believes that these are good investments. The mining properties are located in the general area of our other mining properties. There is a possibility that at some future date the zoning for the mining claims will be changed to allow residential development. Management believes that, at such time, these properties will most likely become more valuable due to their scenic location. In the time prior to any zoning change, these properties may have mineral value; however, we have no current plans to explore these mining properties.

### ***Revenues***

We generated no revenues from mining operations during the three months ended October 31, 2004 and 2003. There were de minimis non-operating revenues during the three months ended October 31, 2004 and 2003 of approximately \$5,140 and \$174, respectively. These non-operating revenues primarily represent interest income and proceeds of equipment sales in 2004.

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### ***Costs and Expenses***

Over all costs and expenses during the three months ended October 31, 2004 (\$361,235) increased by \$42,616 (approximately 13%) from the three months ended October 31, 2003 (\$318,619). The primary reason for the increase during the three months ended October 31, 2004 was increases in mine and in selling, general and administrative expenses, offset by a small decrease in stock based compensation.

Mine expenses during the three months ended October 31, 2004 (\$179,968) increased by \$33,638 (approximately 23%) from the three months ended October 31, 2003 (\$146,330). We believe that the increase in mine expenses resulted primarily from increased professional and engineering costs.

Selling, general and administrative expenses during the three months ended October 31, 2004 (\$152,007) increased by \$12,252 (approximately 9%) from the three months ended October 31, 2003 (\$139,255). We believe that the increase in selling, general and administration expenses resulted primarily from an increase in investment banking services during the three months ended October 31, 2004.

Stock based compensation during the three months ended October 31, 2004 was \$29,620 compared to \$33,034 for the three months ended October 31, 2003.

### ***Net Loss***

As a result, our net loss for the three months ended October 31, 2004 was \$356,095, which was \$62,198 greater than our \$293,897 net loss for the three months ended October 31, 2003.

### ***Loss from Changes in Foreign Exchange Rates***

During the three months ended October 31, 2004, we recorded equity adjustments from foreign currency translations of approximately \$5,900. These translation adjustments are related to changes in the rates of exchange between the Mexican Peso and the US dollar.

### ***Liquidity and Capital Resources; Plan of Operations***

As of October 31, 2004, we had working capital of \$153,724. Our plans over the next 12 months primarily include the cost of engineering, water and construction of the El Chanate open-pit gold mine in Mexico, administration and holding costs in Colorado and general administrative costs in New York.

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Our primary source of funds used during the quarter ended October 31, 2004 was from the sale and issuance of common stock for gross proceeds of approximately \$227,000.

As explained in our annual report on form 10-KSB, historically, we have not generated any material revenues from operations and have been in a precarious financial condition. No assurance whatsoever can be given that we will be able to obtain any significant funds in the near future or that we will be able to continue as a going concern or that any of our plans with respect to our gold properties will, to a material degree, come to fruition. In order to continue our program we will need to obtain substantial financing. There is no assurance that we will be successful.

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Our condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have recurring losses from operations and operating cash constraints that raise substantial doubt about our ability to continue as a going concern.

### *Environmental Issues*

Management does not expect that environmental issues will have an adverse material effect on our liquidity or earnings. Before any additional exploration or any development or mining or construction of milling facilities could begin at our Leadville properties, it would be necessary to meet all environmental requirements and to satisfy the regulatory agencies in Colorado that our proposed procedures fell within the boundaries of sound environmental practice. We currently are bonded to insure reclamation of any areas disturbed by our past activities. The current amount of this bond is \$35,550. In Mexico, we are not aware of any significant environmental concerns or existing reclamation requirements at the El Chanate properties. We received the required Mexican government permits for construction, mining and processing the El Chanate ores in January 2004.

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

We do include in all our internal revenue and cost projections a certain amount for environmental and reclamation costs on an ongoing basis. This amount is determined at a fixed amount of \$0.05 per metric tonne of material to be milled on a continual, ongoing basis to provide primarily for reclaiming tailing disposal sites and other reclamation requirements. At this time, there do not appear to be any environmental costs to be incurred by us beyond those already addressed above. No assurance can be given that environmental regulations will not be changed in a manner that would adversely affect our planned operations.

### *Off-Balance Sheet Transactions*

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

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### *Application Of Critical Accounting Policies*

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

In accordance with SFAS 144, Accounting for the Impairment and Disposal of Long-Lived Assets, we review our long-lived assets for impairments. Impairment losses on long-lived assets are recognized when events or changes in circumstances indicate that the undiscounted cash flows estimated to be generated by such assets are less than their carrying value and, accordingly, all

or a portion of such carrying value may not be recoverable. Impairment losses then are measured by comparing the fair value of assets to their carrying amounts. During the year ended July 31, 2002, we performed a review of our Colorado mine and mill improvements and determined that an impairment loss should be recognized. Accordingly, at July 31, 2002, we reduced by \$999,445 the net carrying value of certain assets relating to our Leadville, Colorado facility to \$300,000, and further reduced the net carrying value to \$0 at July 31, 2004, which approximates management's estimate of fair value.

Environmental remediation costs are accrued based on estimates of known environmental remediation exposure. Such accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. It is reasonably possible that our estimates of reclamation liabilities, if any, could change as a result of changes in regulations, extent of environmental remediation required, means of reclamation or cost estimates. Ongoing environmental compliance costs, including maintenance and monitoring costs, are expensed as incurred. There were no environmental remediation costs accrued at October 31, 2004.

#### ***Risk Factors***

Our business operations and our securities are subject to a number of substantial risks, including those described below. If any of these or other risks actually occur, our business, financial condition and operating results, as well as the trading price or value of our securities could be materially adversely affected.

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

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

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

We do not generate any positive cash flow from operations and we do not anticipate that any positive cash flow will be generated for some time. We have limited financial resources. Leases and licenses that we hold impose financial obligations on us. As a result we need to obtain additional capital from outside sources to continue operations and affect our business plan. We cannot assure that adequate additional funding will be available. We believe that equity financing may provide certain attractive sources of project funding and we are exploring those possibilities. If we are unable to continue to obtain needed capital from outside sources, we will be forced to reduce or curtail our operations. Mining costs quotes were received in 2003 from selected qualified mining contractors and these bids range from 13% to 45% above feasibility study costs. We are exploring ways to reduce these mining costs as quoted by the potential contractors.

Further exploration and development of the mineral properties in which we hold interests depends upon our ability to obtain financing through

- bank or other debt financing,
- equity financing,
- strategic partner joint venturing or
- other means.

Failure to obtain additional financing on a timely basis could cause us to forfeit all or parts of our interests in some or all of the El Chanate concessions and our Leadville properties, and reduce or terminate our operations.

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

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Our consolidated financial statements for the year ended July 31, 2004 included in our form 10-KSB for the year ended as of that date, and the financial statements for the quarter ended October 31, 2004 contained in this quarterly report on form 10-QSB, and filed with the Commission, have been prepared on the basis of accounting principles applicable to a going concern. Our auditors' report on the consolidated financial statements contained in our Form 10-KSB includes an additional explanatory paragraph following the opinion paragraph on our ability to continue as a going concern. A note to these consolidated financial statements describes the reasons why there is substantial doubt about our ability to continue as a going concern and our plans to address this issue. Neither our July 31, 2004 financial statements nor our October 31, 2004 quarterly unaudited financial statements include any adjustments that might result from the outcome of this uncertainty. Our inability to continue as a going concern would require a restatement of assets and liabilities on a liquidation basis, which would differ materially and adversely from the going concern basis on which our consolidated financial statements have been prepared.

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*Our ability on a going forward basis to discover viable and economic mineral reserves is subject to numerous factors, most of which are beyond our control and are not predictable.*

Exploration for gold is speculative in nature, involves many risks and is frequently unsuccessful. 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,
- exchange rates,
- the particular attributes of the deposit, such as its
  - size,
  - grade and
  - proximity to infrastructure,
- financing costs,
- taxation,
- royalties,
- land tenure,
- land use,
- water use,
- power use,

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importing and exporting gold and

environmental protection.

The effect of these factors cannot be accurately predicted.

Aside from our El Chanate concessions, the mineral properties in which we have an interest or right are in the exploration stages and are without reserves of gold or other minerals. We cannot assure that current or proposed exploration or development on our other properties in which we have an interest will result in the discovery of gold mineralization reserves or will result in a profitable commercial mining operation.

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

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

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

In March 2003, we obtained exclusive options to purchase an ore crusher and related assets (spare parts for the crusher and certain transportable building structures). The options expired and the owner of these assets sold his interest to a third party. We currently are in discussions with others for the acquisition of equipment for use at our Mexican concessions. We are optimistic about being able to acquire additional equipment at favorable costs; however, there can be no assurance that we will be successful in acquiring these assets. Moreover, our ability to acquire such equipment is subject to our ability to obtain adequate necessary funding. If we are unable to obtain comparable equipment at an acceptable cost, our planned mining operations and our anticipated results of operations from mining at these concessions, once mining commences, may be adversely affected.

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

The profitability of any gold mining operations in which we have an interest will be significantly affected by changes in the market price of gold. Gold prices fluctuate on a daily basis. Between January 1, 2004 and November 30, 2004, the fixed price for gold on the London Exchange has fluctuated between \$373 and \$453 per ounce. Gold prices are affected by numerous factors beyond our control, including:

the level of interest rates,

the rate of inflation,

central bank sales,

world supply of gold and

stability of exchange rates.

Each of these factors can cause significant fluctuations in gold prices. Such external factors are in turn influenced by changes in international investment patterns and monetary systems and political developments. The price of gold has historically fluctuated

widely and, depending on the price of gold, revenues from mining operations may not be sufficient to offset the costs of such operations.

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

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

ownership of assets,  
land tenure,  
mining policies,  
monetary policies,  
taxation,  
rates of exchange,  
environmental regulations,

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labor relations,  
repatriation of income and  
return of capital.

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

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

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

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

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

***Mining Risks and Potential Inadequacy of Insurance Coverage could adversely affect us.***



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If and when we commence mining operations at any of our properties, such operations will involve a number of risks and hazards, including:

- environmental hazards,
- industrial accidents,
- labor disputes,
- metallurgical and other processing,
- unusual and unexpected rock formations,
- ground or slope failures,
- cave-ins,
- acts of God,
- mechanical equipment and facility performance problems and
- the availability of materials and equipment.

Such risks could result in:

- damage to, or destruction of, mineral properties or production facilities,
- personal injury or death,
- environmental damage,
- delays in mining,

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- monetary losses and
- possible legal liability.

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

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

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

***We are dependent on the efforts of certain key personnel and contractors, the loss of whose services could have a materially adverse effect on our operations.***

We are dependent on a relatively small number of key personnel, the loss of any one of whom could have an adverse effect on us. In addition, while certain of our officers and directors have experience in the exploration and operation of gold producing properties, we will remain highly dependent upon contractors and third parties in the performance of our exploration and development activities. As such there can be no guarantee that such contractors and third parties will be available to carry out such activities on our behalf or be available upon commercially acceptable terms.

***There are uncertainties as to title matters in the mining industry. We believe that we have good title to our properties; however, defects in such title could have a material adverse effect on us.***

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

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***Should we successfully commence mining operations in the future, our ability to remain profitable, should we become profitable, will be dependent on our ability to find, explore and develop additional properties. Our ability to acquire such additional properties will be hindered by competition.***

Gold properties are wasting assets. They eventually become depleted or uneconomical to continue mining. The acquisition of gold properties and their exploration and development are subject to intense competition. Companies with greater financial resources, larger staffs, more experience and more equipment for exploration and development may be in a better position than us to compete for such mineral properties.

***Our property interests in Mexico are subject to the risks of doing business in foreign countries.***

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

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

increased financial costs,  
import and export regulations, including restrictions on the export of gold, and  
foreign exchange controls.

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

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

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

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**Item 3.     *Controls and Procedures.***

Gifford A Dieterle, our Chief Executive Officer and our Chief Financial Officer, performed an evaluation of our disclosure controls and procedures, which have been designed to permit us to effectively identify and timely disclose important information. Taking into account our limited resources and current business operations he concluded that the controls and procedures were effective as of October 31, 2004 to ensure that material information was accumulated and communicated to him and our other management, as appropriate to allow timely decisions regarding required disclosure. During the quarter ended October 31, 2004, we have made no change in our internal controls over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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**PART II   OTHER INFORMATION**

**Item 1.     *Legal Proceedings.***

None.

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

During the quarter ended October 31, 2004, we issued the following shares of our Common Stock pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933: We sold 1,926,732 shares for \$226,820 to 22 persons. Also, during the three months ended October 31, 2004, we issued 259,507 shares of common stock for services rendered, and we issued 151,666 shares of common stock as commissions on the sales of common stock.

**Item 3.     *Defaults Upon Senior Securities.***

None.

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

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibits:**

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

**Reports on Form 8-K:**

None.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

**CAPITAL GOLD CORPORATION**

Registrant

By: /s/ Gifford A. Dieterle

Gifford A. Dieterle  
President/Treasurer

Date: December 20, 2004

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