CAPITAL GOLD CORP
Form 10QSB
June 21, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

|X| QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 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	13-3180530
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

76 Beaver Street, 26TH 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 |X| 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 June 15, 2004
Common Stock, par value $.001 per share	58,188,423

Transitional Small Business Format (check one); Yes |_| No |X|

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 and nine months ended April 30, 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, 2003.

The results reflected for the three and nine months ended April 30, 2004 are not necessarily indicative of the results for the entire fiscal year.

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CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
CONDENSED CONSOLIDATED BALANCE SHEET
APRIL 30, 2004
(Unaudited)

ASSETS

Current Assets:	
Cash and Cash Equivalents	$ 387,359
Loans Receivable - Related Party	23,787
Loans Receivable - Others	17,390
Other Current Assets	12,703
Prepaid Expenses	11,364
Marketable Securities	35,000
Total Current Assets	487,603
Mining, Milling and Other Property and Equipment (Net of Accumulated Depreciation of $358,230)	344,780
Other Assets:	
Other Investments	23,466
Mining Reclamation Bonds	35,550
Security Deposits	9,599
Total Other Assets	68,615
Total Assets	$ 900,998

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:	
Accounts Payable	$ 11,368
Accrued Expenses	71,925
Total Current Liabilities	83,293
Commitments and Contingencies	

Stockholders' Equity:	
Common Stock, Par Value $.001 Per Share; Authorized 150,000,000 Shares; Issued and Outstanding 56,279,061 Shares	56,279
Additional Paid-In Capital	24,183,165
Deficit Accumulated in the Development Stage	(23,424,660)
Accumulated Other Comprehensive Income (Loss)	2,921
Total Stockholders' Equity	817,705
Total Liabilities and Stockholders' Equity	$ 900,998

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

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

	Three Months Ended April 30,		Nine Months April 3
	2004	2003	2004
Revenues:			
Interest Income	$ 2,254	$ 1,325	$ 3,134
Miscellaneous	--	--	6,905
Total Revenues	2,254	1,325	10,039
Costs and Expenses:			
Mine Expenses	85,100	379,172	369,242
Write-Down of Mining, Milling and Other Property and Equipment	--	--	--
Selling, General and Administrative Expenses	158,294	195,561	491,822
Stock Based Compensation	900	132,201	34,934
Loss on Joint Venture	800,000	--	800,000
Depreciation	--	--	--
Total Costs and Expenses	1,044,294	706,934	1,695,998
Loss Before Other Income (Expense)	(1,042,040)	(705,609)	(1,685,959)
Other Income (Expense):			
Gain on Sale of Property and Equipment	--	--	--
Gain on Sale of Subsidiary	--	--	--
Option Payment	--	--	--
Loss on Write-Off of Investment	--	--	--
Loss on Option	--	--	--

Loss on Write-Off of Minority Interest	(150,382)	--	(150,382)
Total Other Income (Expense)	(150,382)	--	(150,382)
Loss Before Minority Interest	(1,192,422)	(705,609)	(1,836,341)
Minority Interest in Net Loss of Subsidiary	--	20,119	51,220
Net Loss	$ (1,192,422)	$ (685,490)	$ (1,785,121)
Net Loss Per Common Share - Basic and Diluted	$ (0.02)	$ (0.02)	$ (0.04)
Weighted Average Common Shares Outstanding	54,914,470	40,837,405	50,019,933

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

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

	For The Nine Months Ended April 30,		For Septem (In
	2004	2003	Apri
Cash Flow From Operating Activities:			
Net Loss	$ (1,785,121)	$ (1,420,994)	$(2
Adjustments to Reconcile Net Loss to Net Cash (Used) By Operating Activities:			
Depreciation	--	--	
Gain on Sale of Subsidiary	--	--	(
Minority Interest in Net Loss of Subsidiary	(51,220)	(78,464)	
Write-Down of Impaired Mining, Milling and Other Property and Equipment	--	--	
Gain on Sale of Property and Equipment	--	--	
Loss on Write-Off of Investment	--	--	
Loss From Joint Venture	800,000	--	
Write Off of Minority Interest	150,382	--	
Value of Common Stock Issued for Services	900	--	
Stock Based Compensation	34,034	207,554	
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in Other Current Assets	2,275	(58,038)	
(Increase) in Security Deposits	(1,164)	--	
(Increase) in Prepaid Expenses	(1,337)	--	
Increase (Decrease) in Accounts Payable	(120,649)	(2,799)	
(Decrease) in Accrued Expenses	(55,596)	(18,095)	

Net Cash (Used) By Operating Activities	(1,027,496)	(1,370,836)	(1
Cash Flow From Investing Activities:			
Purchase of Mining, Milling and Other Property and Equipment	--	--	(
Proceeds on Sale of Mining, Milling and Other Property and Equipment	--	--	
Proceeds From Sale of Subsidiary	--	1,492,131	
Expenses of Sale of Subsidiary	--	--	
Advance Payments - Joint Venture	--	--	
Investment in Joint Venture	--	--	
Investment in Privately Held Company	--	--	
Net Assets of Business Acquired (Net of Cash)	--	--	
Purchase of Marketable Securities	--	(50,000)	
Purchase of Other Investments	(10,584)	(12,882)	
Net Cash Provided (Used) By Investing Activities	(10,584)	1,379,249	

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

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

	For the Six Months Ended April 30, 2004	For the Six Months Ended April 30, 2003	For The Per September 17, (Inceptio To April 30, 2
Cash Flow From Financing Activities:			
(Increase) in Loans Receivable - Related Party	$ (3,607)	$ --	$ (23,7
(Increase) Decrease in Loans Receivable - Others	975	(41,465)	(17,3
Increase in Loans Payable - Officers	--	--	18,6
Repayment of Loans Payable - Officers	--	--	(18,6
Increase in Note Payable	--	--	11,2
Payments of Note Payable	--	--	(11,2
Proceeds From Issuance of Common Stock	1,067,448	30,800	11,850,5
Commissions on Sale of Common Stock	--	--	(5,2
Expenses of Initial Public Offering	--	--	(408,7
Capital Contributions - Joint Venture Subsidiary	100,156	80,340	304,5
Purchase of Certificate of Deposit - Restricted	--	--	(5,0
Purchase of Mining Reclamation Bond	--	--	(30,5
Net Cash Provided By Financing Activities	1,164,972	69,675	11,664,3
Effect of Exchange Rate Changes	14,057	31,769	73,8

Increase (Decrease) In Cash and Cash Equivalents	140,949	109,857	387,3
Cash and Cash Equivalents - Beginning	246,410	149,433	
Cash and Cash Equivalents - Ending	$ 387,359	$ 259,290	$ 387,3
Supplemental Cash Flow Information:			
Cash Paid For Interest	$ --	$ --	
Cash Paid For Income Taxes	$ --	$ --	$
Non-Cash Financing Activities:			
Issuances of Common Stock as Commissions on Sales of Common Stock	$ --	$ --	$ 440,4
Issuance of Common Stock as Payment for Mining, Milling and Other Property and Equipment	$ --	$ --	$ 4,5
Transfer of Joint Venture Advance Payments into Joint Venture Capital	$ --	$ 98,922	$ 98,9

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

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2004
(Unaudited)

NOTE 1 - Basis of Presentation

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 consolidated financial statements reflect all adjustments (which include only normal recurring adjustments) necessary to present fairly the 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
Marketable equity securities, at fair value	$ 35,000

CAPITAL GOLD CORPORATION
(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2004
(Unaudited)

NOTE 3 - Other Comprehensive Income (Loss) - Supplemental Non-Cash Investing Activities

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

Balance - July 31, 2003	$ 53,633
Equity Adjustments from Foreign Currency Translation	(15,712)
Unrealized Loss on Available-for-Sale Securities	(35,000)
Balance - April 30, 2004	$ 2,921

NOTE 4 - Other Events - Termination of Joint Venture Agreement

On April 6 and 8, 2004, effective March 31, 2004, Minera Santa Rita S. de

R.L. de C.V. ("MSR"), one of our wholly-owned Mexican affiliates, and Grupo Minero FG S.A. de C.V. ("FG") executed an agreement (the "Termination Agreement") terminating their joint venture agreement (the "JV Agreement") with regard to the El Chanate project in Mexico.

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

FG has agreed to assign or otherwise transfer to MSR all permits, licenses, consents and authorizations (collectively, "authorizations") for which FG had obtained in its name in connection with the development of the El Chanate project to the extent that the authorizations are assignable. If the authorizations are not assignable or other wise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued ore re-granted in MSR's name. The foregoing is in the process of being completed.

NOTE 5 - Financing Term Sheet

The Company had executed a royalty financing term sheet with Royal Gold, Inc., of Denver, Colorado to supply $13.8 million. Consummation of this funding was subject to due diligence, execution of a definitive agreement, the satisfaction of conditions to be contained therein, and approval by both parties' Directors.

During April 2004 the Company and Royal Gold agreed not to proceed because the parties could not agree on final terms.

NOTE 6 - Stockholders' Equity

During the nine months ended April 30, 2004, the Company sold 10,506,300 shares of common stock to unrelated third party investors for gross proceeds of $1,821,098. Also, during the nine months ended April 30, 2004 the Company issued 572,727 shares of common stock for gross proceeds of $20,600 to related parties upon exercise of options and 515,000 shares of common stock for gross proceeds of $25,750 to an unrelated party upon exercise of options.

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;
- 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.

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 April 30, 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 the initial open pit project contains proven and probable reserves of 358,000 ounces of gold 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 if the necessary 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 commercial production in 2005.

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 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/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.

Management believes that the capital costs to establish a surface, heap leach mining operation at El Chanate will be approximately $13.8 million. Financing is being sought through bank loans, equity and/or royalty arrangements. 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 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. There can be no assurance that adequate equity or debt financing can be attained.

Management believes the project will benefit substantially from rising gold prices, which are currently in the $390 per ounce range. 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. In this regard, Metcon Research Inc. of Tucson, Arizona is completing studies of gold recoveries on existing samples at fine grind sizes of 100 mesh, 150 mesh and 200 mesh and will prepare a report of its findings. These studies have been undertaken to determine whether extraction by fine grinding is economical given the elevated price of gold. Generally, fine grinding, while more expensive, can achieve higher gold recoveries than the heap leach method recommended in the feasibility study. However, M3, who conducted the feasibility study for us, recently informed us that heap leaching remains the most economical method of extraction at current gold prices. In addition, we recently completed further core drilling (three holes for 657 meters) to validate the reverse circulation drilling in the deeper levels of the deposit. We are expecting assays from this core drilling program. If the results are sufficiently positive, we plan on having our feasibility study updated. Should the results be positive, no assurance can be given that additional reserves will be identified.

In January 2004, we received the 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.

Effective March 31, 2004, by mutual agreement, Minera Santa Rita S. de R.L. de C.V. ("MSR"), one of our wholly-owned Mexican affiliates, and FG terminated their joint venture agreement. For information, please see "Liquidity and Capital Resources; Plan of Operations" below.

Leadville, Colorado

During the nine months ended April 30, 2004, as during the prior fiscal year ended July 31, 2003, 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.

Between November 1, 2002 and December 1, 2003, we conditionally acquired 61 properties in Leadville, Colorado having a gross acreage of approximately 623 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 $19,400 for the properties. Of these properties, we let 9 lapse and, with regard to 8 of these properties, we were paid off by the property owners and we received back our payments for these properties, plus interest at 10%.

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 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 or nine months ended April 30, 2004 and 2003. There were de minimis non-operating revenues during the three months ended April 30, 2004 and 2003 of approximately $2,254 and $1,325, respectively. There were de minimis non-operating revenues during the nine months ended April 30, 2004 and 2003 of approximately $10,039 and $36,000, respectively. These non-operating revenues primarily represent interest income

Costs and Expenses

Over all costs and expenses during the three months ended April 30, 2004 ($1,044,294) increased by $337,360 (approximately 48%) from the three months ended April 30, 2003 ($706,934). Over all costs and expenses during the nine months ended April 30, 2004 ($1,695,998) increased by $160,520 (approximately 10%) from the nine months ended April 30, 2003 ($1,535,478).

The primary reason for the increase in overall costs and expenses during the three months ended April 30, 2004 was the loss incurred on our joint venture with FG, offset by significantly reduced mine expenses and stock based compensation.

As discussed above in Note 4 to our Condensed Consolidated Financial Statements, effective March 31, 2004, the joint venture agreement with FG was terminated. In consideration of FG's contributions to the venture of $457,455, we issued to FG 2,000,000 restricted shares of our common stock valued at $800,000 and MSR issued to FG a participation certificate entitling FG to receive five percent of the MSR's annual dividends, when declared. In connection with the issuance of these 2,000,000 shares, the Company recognized a one-time charge to operations of $800,000. This charge represents the cost of acquiring FG's interest in the joint venture.

Mine expenses during the three months ended April 30, 2004 ($85,100) decreased by $294,072 (approximately 78%) from the three months ended April 30, 2003 ($379,172). Mine expenses during the nine months ended April 30, 2004 ($369,242) decreased by $458,910 (approximately 55%) from the nine months ended April 30, 2003 ($828,152). We believe that the decrease in mine expenses resulted primarily from less physical activity on the property due to our major efforts being directed at locating development funding to fully develop the project less available capital and termination of our joint venture agreement.

Selling, general and administrative expenses during the three months ended April 30, 2004 ($158,294) decreased by $37,267 (approximately 19%) from the three months ended April 30, 2003 ($195,561). Selling, general and administrative expenses during the nine months ended April 30, 2004 ($491,822) decreased by $7,950 (approximately 2%) from the nine months ended April 30, 2003 ($499,772). We believe that the decrease in selling, general and administration expenses resulted primarily from less activity due to less available capital during the three months ended April 30, 2004.

Stock based compensation during the three months ended April 30, 2004 was $900 compared to $132,201 for the three months ended April 30, 2003. Stock based compensation during the nine months ended April 30, 2004 was $34,934 compared to $207,554 for the nine months ended April 30, 2003.

Other Expenses

As a result of the termination of the joint venture discussed above, the Company recognized a loss of $150,382 on the write off of the joint venture minority interest during the quarter ended April 30, 2004.

Net Loss

As a result, our net loss for the three months ended April 30, 2004 was $1,192,422, which was $506,932 greater than our $685,490 net loss for the three months ended April 30, 2003. As a result, our net loss for the nine months ended April 30, 2004 was $1,785,121, which was $364,127 greater than our $1,420,994 net loss for the nine months ended April 30, 2003.

Loss from Changes in Foreign Exchange Rates

During the three months ended April 30, 2004, we recorded equity adjustments from foreign currency translations of approximately $5,630. 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 April 30, 2004, we had working capital of $404,310. Our plans over the next 12 months primarily include the cost of construction of the El Chanate open-pit gold mine in Mexico, administration and holding costs in Colorado and general administrative costs in New York.

Our primary source of funds used during the quarter ended April 30, 2004 was from the sale and issuance of common stock for gross proceeds of $120,000.

On April 6 and 8, 2004, effective March 31, 2004, MSR, one of our wholly-owned Mexican affiliates, and FG executed an agreement (the "Termination Agreement") terminating the joint venture agreement (the "JV Agreement") with regard to the

El Chanate project in Mexico.

Pursuant to the Termination Agreement, the parties have terminated amicably the JV Agreement and have released each other from all obligations under the JV Agreement. In consideration of FG's contributions to the venture of $457,455, we issued 2,000,000 restricted shares (valued at $800,000) of our common stock and MSR issue to FG a participation certificate entitling FG to receive five percent of MSR's annual dividends, when declares. The participation certificate also gives FG the right to participate, but not to vote, in the meetings of MSR's Board of Managers, Technical Committee and Partners. FG also received a right of first refusal to carry out the works and render construction services required to effectuate the El

Chanate project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services.

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

We solicited and received bids from three experienced and qualified contactors for mining El Chanate ores. These bids were higher than anticipated and were rejected. We are reviewing certain ways to optimize blasting, hauling and the amounts of pre-production mine stripping to reduce the mining costs. We believe, but cannot guarantee, that there are certain cost savings to be made which, if implemented, will improve the economic returns at El Chanate.

We are actively looking for financing for construction of the El Chanate open-pit gold mine in Sonora, Mexico. We had a term sheet for funding from Royal Gold. 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. There can be no assurance that adequate equity or debt financing can be attained.

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.

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 are a development stage enterprise and 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.

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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 Possible 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.

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 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," 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, which approximates management's estimate of fair value. We recognized no additional impairment loss during the quarter ended April 30, 2004.

We account for stock-based compensation to our employees using the intrinsic value method in accordance with provisions of the Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations which requires the recognition of compensation expense over the vesting period of the option when the exercise price of the stock option granted is less than the fair value of the underlying common stock. Additionally, we comply with the disclosure provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") and provide pro

forma disclosure of net loss and loss per share as if the fair value method has been applied in measuring compensation expense for stock options granted. Stock-based compensation related to options granted to non-employees is recognized using the fair value method in accordance with SFAS 123.

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 April 30, 2004.

Issues And Uncertainties

The following issues and uncertainties, among others, should be considered in evaluating our financial outlook.

> 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.

> 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 effect 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 curtain our operations. Mining costs quotes were recently received 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, 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 (i) the El Chanate concessions, and (ii) 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.

Our financial statements for the year ended July 31, 2003 included in our form 10-KSB for the year ended as of that date, and the financial statements for the quarter ended April 30, 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 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 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, 2003 financial statements nor our April 30, 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 financial statements have been prepared.

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,
- 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. MSR, 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 MSR'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.

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 this equipment 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.

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 and 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,
- 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.

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

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,
- 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 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.

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.

Gold is sold in the world market in U.S. dollars; however, we may 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 the world market in U.S. dollars. We may 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.

Item 3. Controls and Procedures.

Gifford A Dieterle, our Chief Executive Officer and our Chief Financial Officer, has evaluated, as of the end of the period covered by this report, the effectiveness of the design and operation of our disclosure controls and procedures with respect to the information generated for use in this report. Based upon that evaluation, taking into account our limited resources and current business operations, he concluded that the disclosure controls and procedures were effective to provide reasonable assurances that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities.

During the quarter ended April 30, 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 729,605 shares for $90,100 to 16 persons. Also, during the three months ended April 30, 2004, we issued 200,000 shares of common stock and received gross proceeds of $4,000 from the exercise of options by one of our officers and directors, and we issued 515,000 shares of common stock for gross proceeds of $25,750 to an unrelated party upon exercise of options.

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 and Reports on Form 8-K

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:

Report filed on April 12, 2004. Item 5. Other Events and Regulation FD Disclosure.

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: June 18, 2004