FIRSTENERGY CORP
Form 35-CERT
April 22, 2002

SEC FILE NO. 70-7727

and

SEC FILE NO. 70-8593

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

CERTIFICATE PURSUANT TO

RULE 24

OF PARTIAL COMPLETION OF

TRANSACTIONS

FirstEnergy Corp.

In the matter of FirstEnergy, Corp.	Certificate Pursuant to Rule 24 of Partial Completion of Transactions
SEC File No. 70-7727	
SEC File No. 70-8593	
(Public Utility Holding Company Act of 1935)	

TO THE MEMBERS OF THE SECURITIES AND EXCHANGE COMMISSION:

In August 2000, FirstEnergy Corp. (FirstEnergy) entered into an agreement to merge with GPU, Inc., (GPU) under which FirstEnergy would acquire all of the outstanding shares of GPU, Inc.'s common stock for approximately $4.5 billion in cash and FirstEnergy common stock. The merger became effective on November 7, 2001 and is being accounted for by the purchase method. As of November 7, 2001 GPU merged with and into FirstEnergy and ceased its separate existence. This filing excludes the activity for the period of merger close (November 7, 2001) through December 31, 2001 for FirstEnergy Generation Corp. which is an exempt wholesale generator (EWG).

The undersigned, FirstEnergy hereby certifies pursuant to Rule 24 of the Rules and Regulations under the Public Utility Holding Company Act of 1935 (the Act), that certain of the transactions proposed in the Applications, as amended, filed in SEC File No. 70-7727 and SEC File No. 70-8593, respectively, have been carried out in accordance with the Commission's Orders dated December 19, 2000, December 22, 1997, November 16, 1995, June 14, 1995, December 28, 1994, September 12, 1994, December 18, 1992, and June 26, 1990 with respect to the transactions proposed in the Application, as amended, in SEC File No. 70-7727, and the Commission's Orders dated December 26, 2000, December 22, 1997, November 5, 1997, March 6, 1996, January 19, 1996 and July 6, 1995 with respect to the transactions proposed in the Application, as amended, in SEC File No. 70-8593, as follows.

The following is reported in accordance with Supplemental Order dated November 16, 1995 for SEC File No. 70-7727.

1. Guarantees Issued

As successor-by-merger to GPU, FirstEnergy assumed all obligations of GPU under the following guarantees which were outstanding during the period October 1, 2001 through December 31, 2001:

(a) Guaranty dated September 1, 1999 for up to $21.3 million in connection with the conversion of a construction loan to a term loan for the Termobarranquilla (TEBSA) project in Colombia. This guarantee expires four years after the loan conversion date (September 2003).

(b) Guarantee of the obligations of GPUI Colombia Ltd., and International Power Advisors, Inc. (the Operators), both of which are subsidiaries of GPU Power, Inc. (GPU Power), which is a wholly-owned subsidiary of FirstEnergy, under the operations and maintenance agreement (O&M Agreement) in the TEBSA project. The liability of the Operators under the O&M Agreement is $5.8 million.

(c) Guaranty to General Electric Capital Corporation of amounts up to the lesser of six months average rent (approximately $8.1 million) or $10 million, to the extent Lake Cogen, Ltd. fails to pay rent when due under the terms of the project lease or chooses not to renew the lease after its initial 11-year term, which expires in August 2004. Lake Cogen, Ltd. is a former subsidiary of GPU International, Inc., which was sold by GPU to Aquila Energy Corporation (Aquila) in December 2000. Aquila has indemnified FirstEnergy for any losses which FirstEnergy may incur under this guaranty.

2. Services obtained from associated companies

None.

3. Services provided to associated companies

None.

4. Investments by FirstEnergy in Exempt Wholesale Generators and Foreign Utility Companies, and Percentage of Equity Ownership

Set forth below is a summary of the direct or indirect investments as defined in SEC Rule 53(a) by FirstEnergy, as of December 31, 2001 in EWGs and foreign utility companies (FUCOs), as well as the percentage of equity ownership.

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Associate Company	FUCO or EWG	First Energy's Investment at 12/31/01 ($000)	First Energy's Equity Ownership	% Owners not affiliated with FirstEnergy: Name of Entity	Type of Entity
Exempt Wholesale Generators and Foreign Utility Companies:					
Empresa Guaracachi S.A.	EWG	33,000	50%	AFP Prevision BBV	Foreign
				AFP Futuro de Bolivia	Foreign
Guaracachi America, Inc.	EWG	50,111*	100%	Not Applicable	N/A
GPU Power, Inc.	EWG	152,998	100%	Not Applicable	N/A
EI International	EWG	1,098*	100%	Not Applicable	N/A
GPUI Colombia, Ltda.	EWG	1,318*	100%	Not Applicable	N/A
Victoria Electric Inc.	FUCO	166,240	100%	Not Applicable	N/A
Midlands Electricity plc	FUCO	929,143	100%	Not Applicable	N/A
Austran Holdings Inc.	FUCO	66,533	100%	Not Applicable	N/A
Termobarranquilla S.A.	EWG	91,937	29%	ABB Energy Ventures, Inc.	Foreign
				Lancaster Steel	Foreign
				Distral Group	Foreign
				Corp. Electrica De la Costa Atlantica	Foreign

EI Barranquilla, Inc.	EWG	39,906*	100%	Not Applicable	N/A
Barranquilla Lease Holdings, Inc.	EWG	49,415*	100%	Not Applicable	N/A
Los Amigos Leasing Company, Ltd.	EWG	12*	100%	Not Applicable	N/A
GPU International Asia, Inc.	EWG	(495)*	100%	Not Applicable	N/A

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Associate Company	FUCO or EWG	First Energy's Investment at 12/31/01 ($000)	First Energy's Equity Ownership	%Owners not affiliated with FirstEnergy Name of Entity	Type of Entity

Exempt Wholesale Generators and Foreign Utility Companies (continued):

International Power Advisors, Inc.	EWG	3,316*	100%	Not Applicable	N/A
Empresa Distribuidora Electrica Regional,S.A.	FUCO	361,440	100%	Not Applicable	N/A
Total Aggregate Investment in EWGs & FUCOs *		$1,415,520			

(*) FirstEnergy's aggregate investment does not include the items shown with asterisks in order to avoid duplication.

As of December 31, 2001, FirstEnergy also owned, directly or indirectly, a 100% interest in each of the following EWGs, in which its aggregate investment did not exceed $10,000: GPU Power Ireland, Inc.; GPU Power Philippines, Inc.; Austin Cogeneration Corporation; Austin Cogeneration Partners, L.P.; and Hanover Energy Corporation.

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In accordance with Orders dated July 6, 1995 and March 6, 1996 in SEC File No. 70-8593, and in addition to the reimbursement agreements described in item 1 above, the following is reported:

1. Financial Statements

A copy of GPU Capital, Inc.'s (GPU Capital) and GPU Power's unaudited Consolidated Balance Sheets as of December 31, 2001 and unaudited Consolidated Statements of Operations for the twelve months ended December 31, 2001 will be filed separately under a request for confidential treatment pursuant to Rule 104(b).

GPU Capital was incorporated to secure financing to prepay indebtedness of certain subsidiaries of GPU Electric, Inc. (GPU Electric), and for working capital purposes including investments and acquisitions. A capital contribution was made to GPU Capital of all of the issued and outstanding common stock of GPU Electric, which then became a wholly-owned subsidiary of GPU Capital. GPU Capital is a wholly-owned subsidiary of FirstEnergy.

GPU Capital and GPU Electric own and operate electric transmission and distribution systems outside the United States and will be referred to as "GPU Electric."

2. Investments in Exempt Entities

In 1996, Avon Energy Partners Holdings, Inc. (Avon) was formed to acquire a 50% ownership interest in Midlands Electricity plc (Midlands), an English regional electric company. A wholly-owned subsidiary of Avon purchased the outstanding shares of Midlands through a cash tender offer of British pound 1.7 billion (approximately U.S. $2.6 billion). FirstEnergy's interest in Avon is held by EI UK Holdings, Inc. (EI UK), a wholly-owned subsidiary of GPU Electric.

At the time of acquisition, EI UK borrowed approximately British pound 342 million (approximately U.S. $586 million) through a five-year bank term loan facility to fund its investment in Holdings. In addition to the amount invested by EI UK, Holdings borrowed approximately British pound 1.1 billion (U.S. $1.8 billion) through a non-recourse term loan and revolving credit facility to provide for the balance of the acquisition price.

In July 1999, GPU Electric acquired the additional 50% ownership interest in Avon for British pound 452.5 million (approximately US $714 million). Accordingly, GPU Electric is the sole owner of Midlands' electric distribution and contracting businesses as well as independent power plants worldwide. The acquisition was financed at that time through a US $250 million equity contribution, the issuance of US $50 million of commercial paper by GPU Capital, and a two-year British pound 245 million (approximately US $357 million) credit agreement entered into by EI UK.

In March 2002, FirstEnergy announced that it had finalized terms of an agreement pursuant to which Aquila will acquire a 79.9% interest in Avon for approximately $1.9 billion including the assumption of $1.6 billion of debt. The transaction is expected to be completed in April 2002.

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In December 2001, FirstEnergy disposed of its ownership in GPU GasNet and related companies, a natural gas transmission business in Australia, through an initial public offering of GasNet's common stock. The IPO provided net proceeds of $125 million to FirstEnergy and immediately removed $290 million of GasNet-related debt from FirstEnergy's consolidated debt.

In 1999, GPU Electric acquired Empresa Distribuidora Electrica Regional, S.A. (Emdersa), an Argentine holding company, for $375 million. The acquisition was financed at that time through the issuance of commercial paper by GPU Capital and a $50 million capital contribution.

A significant portion of the acquisition debt associated with FirstEnergy's ownership of the above mentioned FUCOs has been refinanced or retired as follows:

GPU Capital had a $1 billion, 364-day senior revolving credit agreement which expired in November 2001. In November 2001, all outstanding borrowings were paid in conjunction with the completion of the FirstEnergy/GPU merger and the facility was terminated.

GPU Electric had a $150 million credit facility, which was due to expires in May 2002, to accommodate short-term borrowing needs. In November 2001, this credit facility was terminated in conjunction with the completion of the FirstEnergy/GPU merger.

GPU Australia Holdings had a $180 million senior revolving credit facility, which expired in November 2001. In October 2001, all outstanding borrowings under this credit facility were paid and the facility was terminated.

EI UK Holdings, Inc. had a British pound 245 million (US $357 million) credit facility consisting of a two tranches British pound 144 million and British pound 101 million). In November 2001, all outstanding borrowings were paid in conjunction with the FirstEnergy/GPU merger and the facility was terminated.

3. Description of Exempt Entities in Which There are Funds Invested

Empresa Guaracachi, S.A.

In July 1995, GPU Power, through Guaracachi America, Inc. acquired from the Bolivian Government a 50% interest in Empresa Guaracachi, S.A.(EGSA). EGSA has an aggregate capacity of 338 MW of natural gas-fired and oil-fired generation facilities located in Bolivia in and around the cities of Santa Cruz, Sucre and Potosi which represents more than one-third of Bolivia's generation capacity.

Termobarranquilla, S.A.

In October 1995, GPU Power, through EI Barranquilla, Inc., acquired a 29% interest in Termobarranquilla, S.A., Empresa de Servicios Publicos (TEBSA). TEBSA has an aggregate capacity of 890 MW of gas-fired generation facilities located near Barranquilla, Colombia. Electricity generated by these facilities is sold to Corporacion Electrica de la Costa Atlantica under a long-term (20.5 years) contract.

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Barranquilla Lease Holdings, Inc. and Los Amigos Leasing Company, Ltd.

Barranquilla Lease Holdings, Inc., a subsidiary of GPU Power, through its wholly-owned subsidiary Los Amigos Leasing Company, Ltd. (Leaseco), owns and leases to TEBSA equipment in generation facilities constructed and operated by

TEBSA. The lease provides for TEBSA to make monthly lease payments to Leaseco through September 2011.

Midlands Electricity plc (Midlands)

Midlands distributes electricity to 2.3 million customers in England in an area with a population of five million. Midlands also owns an independent power production business that generates electricity in England and internationally.

Emdersa

Emdersa owns three electric distribution companies that serve three provinces in northwest Argentina. The three distribution companies serve approximately 335,000 customers throughout a service territory of approximately 124,300 square miles. The provinces have a total population of about 1.5 million.

4. Services Obtained From Associated Companies

GPU Service, Inc. provided administrative services to GPU Power and GPU Electric in the amount of $314,771 and $541,391 respectively, for the three months ended December, 2001, in support of operations and management activities.

5. Services Provided to Associated Companies

A description of services provided by GPU Power to associate companies during the period October 1, 2001 through December 31, 2001 will be filed separately under a request for confidential treatment under Rule 104(b). GPU Electric did not provide any services to associate companies during the period October 1, 2001 through December 31, 2001.

In accordance with the Commission's Order dated November 5, 1997 in SEC File No. 70-8593, the following is reported:

a) FirstEnergy's aggregate investment includes all amounts invested, or committed to be invested, in foreign utility companies (FUCOs) and exempt wholesale generators (EWGs), for which there is recourse, directly or indirectly, to the registered holding company. Accordingly, FirstEnergy's aggregate investment as of December 31, 2001 is as follows:

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	(In Thousands)
FUCOs	
Midlands Electricity plc	$ 929,143
Emdersa	361,440
Subtotal	1,290,583
EWGs	
Termobarranquilla, S.A.	$ 91,937
Empresa Guaracachi, S.A.	33,000

Subtotal		124,937
Aggregate Investment in FUCOs and EWGs	$	1,415,520

b) As of December 31, 2001 (In Thousands) FirstEnergy's Aggregate Investment in FUCOs and EWGs is $1,415,520

Aggregate Investment as a Percentage of FirstEnergy and Subsidiary Companies:

Total capitalization	$ 24,373,265	5.8%
Net utility plant	$ 12,428,429	11.4%
Total consolidated assets	$ 37,351,513	3.8%
Market value of common equity	$ 8,508,755	16.6%

c) FirstEnergy and Subsidiary Companies Consolidated Capitalization Ratios as of December 31, 2001 (In Thousands)

	Amount	%
Common equity	$ 7,398,599	32.2
Cumulative preferred stock	756,043	0.7
Subsidiary-obligated mandatorily redeemable preferred securities	529,450	1.2
Subsidiary-obligated trust preferred securities	-	-
Long-term debt	14,841,107	60.1
Notes payable	848,066	3.8
Total capitalization	$ 24,373,265	100.0%

d) Market-to-book ratio of FirstEnergy and Subsidiary Companies common stock at December 31, 2001:

Closing Market Price per Share	$ 34.98
Book Value per Share	$ 25.29
Market-to Book Ratio of Common Stock	138.3%

e) Analysis of Growth in Retained Earnings for FirstEnergy and Subsidiary Companies intentionally omitted due to the FirstEnergy/GPU merger in November 2001.

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f) Statements of Operations for the period ended December 31, 2001 for the following Project Parents and Exempt Entities will be filed separately under a request for confidential treatment under Rule 104 (b):

Termobarranquilla, S.A.

GPUI Colombia, Ltda.
Empresa Guaracachi, S.A.
GPU International Australia Pty., Ltd.
Emdersa
Midlands Electricity plc

SIGNATURE

PURSUANT TO THE REQUIREMENTS OF THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, THE UNDERSIGNED COMPANY HAS DULY CAUSED THIS CERTIFICATE TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

FirstEnergy Corp.

By:/s/ Harvey L. Wagner
Harvey L. Wagner
Vice President and Controller

Date: April 22, 2002

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

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

	For The Year Ended July 31,		
	2008	2007	2006
Cash Flow From Operating Activities:			
Net Income (Loss)	$ 6,364	$ (7,472)	$ (4,805)
Adjustments to Reconcile Net Loss to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	3,285	891	39
Accretion of Reclamation and Remediation	124	31	-
Loss on sale of property and equipment			201
Loss on change in fair value of derivative, net	1,356	766	582
Equity Based Compensation	1,090	492	362
Changes in Operating Assets and Liabilities:			
Increase in Accounts Receivable	(1,477)	-	-
Increase in Prepaid Expenses	(146)	(32)	(21)
Increase in Inventory	(8,913)	(2,458)	-
Increase (Decrease) in Other Current Assets	1,185	2,975	(5,243)
Decrease (Increase) in Other Deposits	870	(629)	(170)
Decrease (Increase) in Other Assets	-	(50)	1
Increase in Mining Reclamation Bond	(46)	-	-
Increase in Deferred Tax Asset	(573)	-	-
Increase in Accounts Payable	171	358	167
Decrease in Derivative Liability	(1,166)	-	-
Increase in Reclamation and Remediation	-	1,218	-
Increase in Other Liability	62		-
Increase in Deferred Tax Liability	2,063		
Increase in Accrued Expenses	2,069	24	166
Net Cash Provided By (Used in) Operating Activities	6,318	(3,663)	(8,721)
Cash Flow From Investing Activities:			
Decrease (Increase) in Other Investments	28	(4)	-
Purchase of Mining, Milling and Other Property and Equipment	(5,417))	(17,851)	(811)
Purchase of Intangibles	(90)	(570)	-
Proceeds on Sale of Mining, Milling and Other Property and Equipment	-	-	192
Net Cash Used in Investing Activities	(5,479)	(18,425)	(619)

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

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

	For The Year Ended July 31, 2008	2007	2006
Cash Flow From Financing Activities:			
Advances to Affiliate	$ 7	$ (5)	$ (10)
Proceeds from Borrowing on Credit Facility	-	12,500	-
Proceeds From Issuance of Common Stock	7,474	9,129	8,115
Deferred Finance Costs	(175)	(257)	(351)
Net Cash Provided By Financing Activities	7,306	21,367	7,754
Effect of Exchange Rate Changes	622	205	46
Increase (Decrease) In Cash and Cash Equivalents	8,767	(516)	(1,540)
Cash and Cash Equivalents - Beginning	2,225	2,741	4,281
Cash and Cash Equivalents – Ending	$ 10,992	$ 2,225	$ 2,741
Supplemental Cash Flow Information:			
Cash Paid For Interest	$ 1,235	$ 879	$ -
Cash Paid For Income Taxes	$ 1,373	$ 23	$ 15
Non-Cash Financing Activities:			
Issuance of common stock and warrants as payment of financing costs	$ 103	$ 3,665	$ 270
Change in Fair Value of Derivative Instrument	$ 141	$ 47	$ -
Change in Fair Value of Asset Retirement Obligation	$ 293	$ -	$ -

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

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CAPITAL GOLD CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2008

NOTE 1 - Basis of Presentation

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

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

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

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

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

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

NOTE 2 - Summary of Significant Accounting Policies

Principals of Consolidation

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

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents include money market funds and/or short term U.S. treasury bonds.

Accounts Receivable

Accounts receivable represents amounts due but not yet received from customers upon sales of precious metals.

Marketable Securities

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

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

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

Costs that are incurred in or benefit the productive process are accumulated as ore on leach pads and inventories. Ore on leach pads and inventories are carried at the lower of average cost or net realizable value. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. Write-downs of ore on leach pads and inventories, resulting from net realizable value impairments, are reported as a component of *Costs applicable to sales*. The current portion of ore on leach pads and inventories is determined based on the expected amounts to be processed within the next 12 months. Ore on leach pads and inventories not expected to be processed within the next 12 months are classified as long-term. The major classifications are as follows:

Ore on Leach Pads

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

The estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tons added to the leach pads), the grade of ore placed on the leach pads (based on assay data) and a recovery percentage (based on ore type). In general, leach pads recover approximately 50% to 75% of the recoverable ounces in the first year of leaching, declining each year thereafter until the leaching process is complete.

Although the quantities of recoverable gold placed on the leach pads are reconciled by comparing the grades of ore placed on pads to the quantities of gold actually recovered (metallurgical balancing), the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process needs to be constantly monitored and estimates need to be refined based on actual results over time. The Company's operating results may be impacted by variations between the estimated and actual recoverable quantities of gold on its leach pads. Variations between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value will be accounted for on a prospective basis.

In-process Inventory

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

Precious Metals Inventory

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

Materials and Supplies

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

<u>Property, Plant and Mine Development</u>

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

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

Impairment of Long-Lived Assets

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

Reclamation and Remediation Costs ("Asset Retirement Obligations")

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

Deferred Financing Costs

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

Intangible Assets

Purchased intangible assets consisting of rights of way, easements and net profit interests are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the units of production method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2008.

Fair Value of Financial Instruments

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

Revenue Recognition

Revenue will be recognized, net of treatment and refining charges, from a sale when the price is determinable, the product has been delivered, the title has been transferred to the customer and collection of the sales price is reasonably assured. Revenues from by-product sales will be credited to *Costs applicable to sales* as a by-product credit.

Foreign Currency Translation

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

Comprehensive Income (Loss)

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

Income Taxes

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

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

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that the Company will not be liable for any excess flat tax for calendar year 2008 and, accordingly, has recorded a Mexican income tax provision as of July 31, 2008.

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

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

Equity Based Compensation

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

Such options and warrants may be exercisable at varying exercise prices currently ranging from $0.24 to $0.85 per share of common stock with certain of these grants becoming exercisable immediately upon grant. Certain grants vested or are vesting for a period of five years. Also, certain grants contain a provision whereby they become immediately exercisable upon a change of control.

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

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

The fair value of each option award is estimated on the date of grant using a Black-Scholes option valuation model. Expected volatility is based on the historical volatility of the price of the Company stock. The risk-free interest rate is based on U.S. Treasury issues with a term equal to the expected life of the option. The Company uses historical data to estimate expected dividend yield, expected life and forfeiture rates. The estimated per share weighted average grant-date fair values of stock options and warrants granted during the year ended July 31, 2008 and 2007, were $0.62 and $0.33, respectively. The fair values of the options and warrants granted were estimated based on the following weighted average assumptions:

	Year ended July 31,	
	2008	2007
Expected volatility	47.60 – 60.88%	73%
Risk-free interest rate	4.61%	5.75%
Expected dividend yield	-	-
Expected life	5.5 years	2.4 years

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

	Number of Options	Weighted Average exercise price	Weighted average remaining contracted term (years)	Aggregate intrinsic value
Outstanding at July 31, 2006	5,570,454	$ .16	1.17	$ 702
Options granted	1,050,000	.36		
Options exercised	(3,570,909)	.08	-	-
Options expired	(549,545)	.22	-	-
Warrants and options outstanding at July 31, 2007	2,500,000	$ .34	1.20	$ 255
Options granted*	2,500,000	.63	-	-
Options exercised	(1,450,000)	.32	-	-
Options expired	-	-	-	-
Warrants and options outstanding at July 31, 2008	3,550,000	$ .55	4.00	$ 334
Warrants and options exercisable at July 31, 2008	1,800,000	$ .47	2.83	$ 308

* Issuances under 2006 Equity Incentive Plan.

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

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Outstanding at August 1, 2007	150,000	$	.32	0.67	$	18
Options granted	2,500,000	$	.63	-		-
Options vested	(900,000)	$	.58	-		-
Unvested Options outstanding at July 31, 2008	1,750,000	$	.63	4.49	$	8

Stock option and warrant activity for non-employees during the year ended July 31, 2008 is as follows:

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Warrants and options outstanding at July 31, 2006	25,561,000	$	.29	1.33	$	1,940
Options granted	16,982,542		.33			
Options exercised	(18,633,000)		.29	-		-
Options expired	(1,375,000)		.31	-		-
Warrants and options outstanding at July 31, 2007	22,535,542	$	.33	1.48	$	2,578
Options granted*	1,715,000	$	.66	-		-
Options exercised	(21,555,542)		.33	-		-
Options expired	(680,000)		.30	-		-
Warrants and options outstanding at July 31, 2008	2,015,000	$	.62	3.54	$	54
Warrants and options exercisable at July 31, 2008	1,560,000	$	.61	2.71	$	48

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

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

	Number of Options		Weighted Average Exercise price	Weighted average remaining contracted term (years)		Aggregate Intrinsic value
Outstanding at August 1, 2007	-		-	-		-
Options granted	650,000	$	.63	-		-
Options vested	(195,000)	$	.63	-		-
Unvested Options outstanding at July 31, 2008	455,000	$	.63	4.49	$	3

The impact on the Company's results of operations of recording equity based compensation for the year ended July 31, 2008, for employees and non-employees was approximately $987 and reduced earnings per share by $0.01 per basic and diluted share.

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

Reclassifications

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

Net Loss Per Common Share

Basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period. Equivalent common shares, consisting of stock options and warrants, which amounted to 25,035,542 and 31,131,454 shares, respectively, are excluded from the calculation of diluted net loss per share for the fiscal years ended July 31, 2007 and 2006 since their effect is antidilutive.

Concentrations of Credit Risk

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

Accounting for Derivatives and Hedging Activities

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

The Company entered into interest rate swap agreements in accordance with the terms of its credit facility, which requires that the Company hedge at least 50 percent of the Company's outstanding debt under this facility. The agreements entered into cover $9,375,000 or 75% of the outstanding debt. Both swaps covered this same notional amount of $9,375,000, but over different time horizons. The first covered the six months commencing October 11, 2006 and terminated on March 31, 2007 and the second covering the period from March 30, 2007 with a termination date of December 31, 2010. The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income and later reclassified to the interest expense component of earnings coincidently with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness.

Use of Estimates

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

Recently Issued Accounting Pronouncements

On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115. This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. This option is available to all entities, including not-for-profit organizations. Most of the provisions in Statement 159 are elective; however, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. The FASB's stated objective in issuing this standard is as follows: "to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions".

The fair value option established by Statement 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. A not-for-profit organization will report unrealized gains and losses in its statement of activities or similar statement. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments.

Statement 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company elected not to adopt the fair value option for any eligible instruments.

On December 4, 2007, the FASB issued FASB Statement No. 160,*"Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51."* Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company believes adoption of this standard will not have an impact on the financial condition or the results of the Company's operations.

On April 21, 2008, the FASB posted a revised FASB Statement No. 133 Implementation guidance for Issues I1, Interaction of the Disclosure Requirements of Statement 133 and Statement 47, and K4, Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness. The revisions relate to the issuance of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The Company believes adoption of this standard will not have a material impact on the financial condition or the results of the Company's operations.

The FASB has issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles.* Statement 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. The hierarchy under Statement 162 is as follows:

* FASB Statements of Financial Accounting Standards and Interpretations, FASB Statement 133 Implementation Issues, FASB Staff Positions, AICPA Accounting Research Bulletins and Accounting Principles Board Opinions that are not superseded by actions of the FASB, and Rules and interpretive releases of the SEC for SEC registrants.

* FASB Technical Bulletins and, if cleared by the FASB, AICPA Industry Audit and Accounting Guides and Statements of Position.

* AICPA Accounting Standards Executive Committee Practice Bulletins that have been cleared by the FASB, consensus positions of the EITF, and Appendix D EITF topics.

Statement 162 is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.* Since Statement 162 is only effective for nongovernmental entities, the GAAP hierarchy will remain in AICPA Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report,* for state and local governmental entities and federal governmental entities. The Company believes the adoption of this standard will not have a material impact on the financial condition or the results of the Company's operations.

The FASB issued FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts.* This new standard clarifies how FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises,* applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts.

Statement 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for disclosures about the insurance enterprise's risk-management activities, which are effective the first period (including interim periods) beginning after May 23, 2008. Except for the required disclosures, earlier application is not permitted. The Company believes the adoption of this standard will not have an impact on the financial condition or the results of the Company's operations.

NOTE 3 - Marketable Securities

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

	(in thousands)			
	July 31, 2008		July 31, 2007	
Marketable equity securities, at cost	$	50	$	50
Marketable equity securities, at fair value (See Notes 12 & 14)	$	65	$	90

NOTE 4 – Material and Supplies Inventories

	(in thousands)			
	July 31, 2008		July 31, 2007	
Materials, supplies and other	$	936	$	174
Total	$	936	$	174

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

	(in thousands)			
	July 31, 2008		July 31, 2007	
Ore on leach pads	$	12,176	$	2,996
Total	$	12,176	$	2,996

Costs that are incurred in or benefit the productive process are accumulated as ore on leach pads and inventories. Ore on leach pads and inventories are carried at the lower of average cost or net realizable value. Net realizable value represents the estimated future sales price of the product based on current and long-term metals prices, less the estimated costs to complete production and bring the product to sale. Write-downs of ore on leach pads and inventories, resulting from net realizable value impairments, will be reported as a component of *Costs applicable to sales*. The current portion of ore on leach pads and inventories is determined based on the expected amounts to be processed within the next 12 months. Ore on leach pads and inventories not expected to be processed within the next 12 months will be classified as long-term.

NOTE 6 – Deposits

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

	(in thousands)			
	July 31, 2008		July 31, 2007	
Advance payment on Mining Contract to Sinergia (Note 18)	$	-	$	683
Equipment deposit		9		193
Other		-		3
Total Deposits	$	9	$	879

NOTE 7 – Other Current Assets

Other current assets consist of the following:

	(in thousands)			
	July 31, 2008		July 31, 2007	
Value added tax to be refunded	$	425	$	1,475
Asset held for resale		-		166
Other		65		34
Total Other Current Assets	$	490	$	1,675

NOTE 8 – Property and Equipment

Property and Equipment consist of the following:

	(in thousands)			
	July 31, 2008		July 31, 2007	
Process equipment and facilities	$	20,182	$	16,285
Asset retirement obligation		1,511		1,218
Mining equipment		974		863
Mineral properties		141		141
Construction in progress		1,277		-
Computer and office equipment		316		212
Improvements		16		16
Furniture		38		23
Total		24,455		18,758
Less: accumulated depreciation		(3,537)		(758)
Property and equipment, net	$	20,918	$	18,000

Depreciation expense for the year ended July 31, 2008 and 2007 was approximately $2,779 and $720, respectively.

NOTE 9 - Intangible Assets

Intangible assets consist of the following:

	(in thousands)	
	July 31, 2008	July31, 2007
Repurchase of Net Profits Interest	$ 500	$ 500
Water Rights	134	-
Mobilization Payment to Mineral Contractor	70	70
Investment in Right of Way	18	18
Total	722	588
Accumulated Amortization	(541)	(11)
Intangible assets, net	$ 181	$ 577

Purchased intangible assets consisting of rights of way, water rights, easements and net profit interests are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the economic lives of the respective assets, generally five years or using the UOP method. It is the Company's policy to assess periodically the carrying amount of its purchased intangible assets to determine if there has been an impairment to their carrying value. Impairments of other intangible assets are determined in accordance with SFAS 144. There was no impairment at July 31, 2008.

On September 13, 2006, the Company repurchased the 5% net profits interest formerly held by Grupo Minera FG ("FG"), and subsequently acquired by Daniel Gutierrez Cibrian, with respect to the operations at the El Chanate mine. That net profits interest had originally been granted to FG in connection with the April 2004 termination of the joint venture agreement between FG and MSR, the Company's wholly owned Mexican subsidiary. FG also received a right of first refusal to carry out the works and render construction services required to effectuate the El Chanate Project. This right of first refusal is not applicable where a funding source for the project determines that others should render such works or services. FG has assigned or otherwise transferred to MSR all permits, licenses, consents and authorizations (collectively, "authorizations") for which FG had obtained in its name in connection with the development of the El Chanate Project to the extent that the authorizations are assignable. To the extent that the authorizations are not assignable or otherwise transferable, FG has given its consent for the authorizations to be cancelled so that they can be re-issued or re-granted in MSR's name. The foregoing has been completed. The purchase price for the buyback of the net profits interest was $500,000, and was structured as part of the project costs financed by the loan agreement with Standard Bank, Plc. (See Note 17). Mr. Cibrian retained a 1% net profits interest in MSR, payable only after a total US $20 million in net profits has been generated from operations at El Chanate. The Company recorded this transaction on its balance sheet as an intangible asset under guidance provided by FAS 142 – *Goodwill and Other Intangible Assets* to be amortized over the period of which the asset is expected to contribute directly or indirectly to the Company's cash flow. On March 23, 2007, The Company reacquired the remaining 1% net profits interest (see Note 18).

The Right of Way and the Mobilization Payment were recorded at cost and are being amortized using the units of production method. Amortization expense for the year ended July 31, 2008 and 2007 was approximately $530 and $7, respectively. The Repurchase of Net Profits Interest from FG was fully amortized as of July 31, 2008.

NOTE 10 - Mining Reclamation Bonds

These represent certificates of deposit that have been deposited as security for Mining Reclamation Bonds in Colorado. They bear interest at rates varying from 4.35% to 5.01% annually and mature at various dates through 2010.

NOTE 11 - Mining Concessions

Mining concessions consists of the following:

	(in thousands)	
	July 31, 2008	July 31, 2007
El Chanate	$ 45	$ 45
El Charro	25	25
Total	70	70
Less: accumulated amortization	(11)	(3)
Total	$ 59	$ 67

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

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

NOTE 12 - Loans Receivable - Affiliate

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

NOTE 13 - Reclamations and Remediation Liabilities (“Asset Retirement Obligations”)

Reclamation costs are allocated to expense over the life of the related assets and are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation and abandonment costs. The Asset Retirement Obligation is based on when the spending for an existing environmental disturbance and activity to date will occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the Asset Retirement Obligation at each mine site. The Company reviewed the estimated present value of the El Chanate mine reclamation and abandonment costs as of July 31, 2008. This review resulted in an increase in the Asset Retirement Obligation by approximately $293. As of July 31, 2008 and 2007, approximately $1,666 and $1,249, respectively, was accrued for reclamation obligations relating to mineral properties in accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations.”

The following is a reconciliation of the liability for long-term Asset Retirement Obligations for the years ended July 31, 2008 and 2007:

		(in thousands)
Balance as of July 31, 2006	$	-
Additions, changes in estimates and other		1,218
Liabilities settled		-
Accretion expense		31
Balance as of July 31, 2007	$	1,249
Additions, changes in estimates and other		293
Liabilities settled		-
Accretion expense		124
Balance as of July 31, 2008	$	1,666

NOTE 14 - Other Comprehensive Income (Loss)-Supplemental Non-Cash Investing Activities

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

		(in thousands)
Balance as of July 31, 2006	$	146
Change in fair value of derivative instrument		(47)
Equity Adjustments from Foreign Currency Translation		205
Unrealized Gains (loss) on Marketable Securities		-
Balance as of July 31, 2007	$	304
Change in fair value of derivative instrument		(141)
Equity Adjustments from Foreign Currency Translation		756
Unrealized Gains (loss) on Marketable Securities		(25)
Balance as of July 31, 2008	$	894

NOTE 15 - Related Party Transactions

In August 2002, the Company purchased marketable equity securities of a related company. The Company recorded approximately $6 and $9 in expense reimbursements including office rent from this entity for the year ended July 31, 2008 and 2007, respectively (see Notes 3 and 12).

The Company utilizes a Mexican Corporation 100% owned by two officers/Directors and stockholders of the Company for mining support services. These services include but are not limited to the payment of mining salaries and related costs. The Mexican Corporation bills the Company for these services at cost. Mining expenses charged by the Mexican Corporation and eliminated upon consolidation amounted to approximately $3,775 and $702 for the year ended July 31, 2008 and 2007, respectively.

During the years ended July 31, 2008 and 2007, the Company paid its former V.P. Exploration and Director consulting fees of $100,000 and $0, respectively. In addition, this individual earned wages of $120,000 during the year ended July 31, 2007. Also, during the year ended July 31, 2008 and 2007, the Company paid a director legal and consulting fees of $35,000 and $24,000, respectively.

In January 2006, the Company extended the following stock options through January 3, 2007, all of which are exercisable at $0.05 per share: Chief Executive Officer and Director – 1,250,000 shares; Director – 500,000 shares; V.P. Investor Relations and Director – 327,727 shares; V.P. Development and Director – 500,000 shares; and V.P. Mine Development – 25,000 shares. There was not a material increase in the intrinsic value of these options at the date of modification as compared to the intrinsic value of the original issuance of these stock options on the applicable measurement date. All of these options were exercised prior to their extended expiration.

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On February 7, 2007, Robert Roningen resigned as the Company’s Secretary and, on February 9, 2007, John Brownlie, the Company’s Vice President of Operations, was appointed Chief Operating Officer and Jeffrey W. Pritchard, the Company’s Vice President of Investor Relations, was appointed Secretary.

NOTE 16 - Stockholders' Equity

Common Stock

The Company issued 1,150,000 shares of common stock and 12,600,000 common stock purchase warrants to Standard Bank as part of a commitment fee to entering into the credit facility on August 15, 2006, with its wholly-owned subsidiaries MSR and Oro. The Company recorded the issuance of the 1,150,000 shares of common stock and 12,600,000 warrants as deferred financing costs of approximately $351 and $3,314, respectively, as a reduction of stockholders' equity on the Company's balance sheet. The issuance of 1,150,000 shares was recorded at the fair market value of the Company's common stock at the closing date or $0.305 per share. The warrants were valued at approximately $3,314 using the Black-Scholes option pricing model and were reflected as deferred financing costs as a reduction of stockholders' equity on the Company’s balance sheet (See Note 18). The balance of deferred financing costs, net of amortization, as of July 31, 2008 and 2007, as a reduction of stockholders' equity, was approximately $2,611 and $3,438. Amortization expense for the year ended July 31, 2008 and 2007, was approximately $931 and $750, respectively.

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

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

On March 22, 2007, the Company issued 500,000 shares of common stock to John Brownlie, the Company’s Chief Operating Officer under the Company’s 2006 Equity Incentive Plan. The fair value of the services provided in March 2007 amounted to $225 or $0.45 per share.

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

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

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

Recapitalization

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

Warrants and Options

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

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

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

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

On August 13, 2007, the Company issued two year options to purchase the Company's common stock at an exercise price ranging from $0.43 to $0.50 per share to outside parties for services provided. These options are for the purchase of 465,000 shares and were issued under the 2006 Equity-Incentive Plan. The Company utilized the Black-Scholes Method to fair value these options and recorded approximately $58 as equity based compensation expense.

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

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

<u>2006 Equity Incentive Plan</u>

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

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

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

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

The exercise price of an option must be paid in cash. No options may be granted under the Plan after the tenth anniversary of its effective date. Unless the Board determines otherwise, there are certain continuous service requirements and the options are not transferable.

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

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

	2007			2008		
	Shares	Option Price	Weighted Average Exercise Price	Shares	Option Price	Weighted Average Exercise Price
Outstanding beginning at year	-	$ -	$ -	1,050,000	$ 0.36-0.45	$ 0.38
Granted	1,050,000	0.36-0.45	0.38	3,615,000	0.38-0.63	$ 0.61
Canceled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding end of year	1,050,000	$ 0.36-0.45	$ 0.38	4,665,000	$ 0.36-0.63	$ 0.56
Exercisable	1,050,000	$ 0.36-0.45	$ 0.38	3,360,000	$ 0.36-0.63	$ 0.54
Weighted average remaining contractual life (years)	1-2 years	-	-	5-6 years	-	-
Available for future grants	8,450,000	-	-	3,225,000	-	-

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

NOTE 17 - Debt

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

	July 31, 2008	July 31, 2007
Total long-term debt	$ 12,500	$ 12,500
Less current portion	4,125	-
Long-term debt	$ 8,375	$ 12,500

On August 15, 2006, the Company entered into a credit facility (the “Credit Facility”) involving its wholly-owned subsidiaries MSR and Oro, as borrowers, us, as guarantor, and Standard Bank plc (“Standard Bank”), as the lender and the offshore account holder. Under the Credit Facility, MSR and Oro have agreed to borrow money in an aggregate principal amount of up to US$12.5 million (the “Loan”) for the purpose of constructing, developing and operating the Company’s El Chanate Project (the “Mine”). The Company is guaranteeing the repayment of the loan and the performance of the obligations under the Credit Facility. The Loan is scheduled to be repaid in fourteen quarterly payments with the first principal payment having been made on September 30, 2008. The Loan bears interest at LIBOR plus 4.00%, with LIBOR interest periods of 1, 2, 3 or 6 months and with interest payable at the end of the applicable interest period. As of July 31, 2007, the outstanding amount on the credit facility was $12,500 and accrued interest on this facility was approximately $100.

Approximate future principal payments under this loan are as follows (in thousands):

Fiscal Years Ending July 31,	
2009	$ 4,125
2010	3,125
2011	3,500
2012	1,750
	$ 12,500

The Credit Facility contains covenants customary for a project financing loan, including but not limited to restrictions (subject to certain exceptions) on incurring additional debt, creating liens on its property, disposing of any assets, merging with other companies and making any investments. The Company is required to meet and maintain certain financial covenants, including (i) a debt service coverage ratio of not less than 1.2 to 1.0, (ii) a projected debt service coverage ratio of not less than 1.2 to 1.0, (iii) a loan life coverage ratio of at least 1.6 to 1.0, (iv) a project life coverage ratio of at least 2.0 to 1.0 and (v) a minimum reserve tail. The Company also is required to maintain a certain minimum level of unrestricted cash, and upon meeting certain Mine start-up production and performance criteria, MSR and Oro are required to maintain a specified amount of cash as a reserve for debt repayment. As of July 31, 2008, the Company was in compliance with these financial covenants.

The Loan is secured by all of the tangible and intangible assets and property owned by MSR and Oro pursuant to the terms of a Mortgage Agreement, a Non-Possessory Pledge Agreement, an Account Pledge Agreement and certain other agreements entered into in Mexico (the “Mexican Collateral Documents”). As additional collateral for the Loan, the Company, together with its subsidiary, Leadville Mining & Milling Holding Corporation, have pledged all of its ownership interest in MSR and Oro. In addition to these collateral arrangements, MSR and Oro are required to deposit all proceeds of the Loan and all cash proceeds received from operations and other sources in an offshore, controlled account with Standard Bank. Absent a default under the loan documents, MSR and Oro may use the funds from this account for specific purposes such as approved project costs and operating costs.

As part of the fee for entering into and closing the Credit Facility, the Company issued to Standard Bank 1,150,000 shares of its restricted common stock and a warrant for the purchase of 12,600,000 shares of its common stock at an exercise price of $0.317 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. Previously, pursuant to the mandate and commitment letter for the facility, the Company issued to Standard Bank 1,000,000 shares of its restricted common stock and a warrant for the purchase of 1,000,000 shares of its common stock at an exercise price of $0.32 per share, expiring on the earlier of (a) December 31, 2010 or (b) the date one year after the repayment of the Credit Facility. The Company recorded the issuance of the 1,000,000 shares of common stock as deferred financing costs of approximately $270 as a reduction of stockholders' equity on its balance sheet. The issuance of these shares was recorded at the fair market value of the Company’s common stock at the commitment letter date or $0.27 per share. In addition, the warrants were valued at approximately $253,000 using the Black-Scholes option pricing model and were reflected as deferred financing costs as a reduction of stockholders' equity on the Company’s balance sheet in 2006. The Company registered for public resale the 2,150,000 shares issued to Standard Bank and the 13,600,000 shares issuable upon exercise of warrants issued to Standard Bank.

In March 2006, The Company entered into a gold price protection arrangement to protect it against future fluctuations in the price of gold and interest rate swap agreements in October 2006 in accordance with the terms of the Credit Facility both with Standard Bank (See Note 20 for more details on these transactions).

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On July 17, 2008, the Company closed in escrow pending execution of Mexican collateral documents and certain other ministerial matters an Amended And Restated Credit Agreement (the “Credit Agreement”) involving our wholly-owned Mexican subsidiaries MSR and Oro, as borrowers (“Borrowers”), the Company, as guarantor, and Standard Bank PLC (“Standard Bank”), as the lender. The Credit Agreement amends and restates the prior credit agreement between the parties dated August 15, 2006 (the “Original Agreement”). Under the Original Agreement, MSR and Oro could borrow, and did borrow, money in an aggregate principal amount of up to US$12,500,000 (the “Term Loan”) for the purpose of constructing, developing and operating the El Chanate gold mining project in Sonora State, Mexico. The Company guaranteed the repayment of the Term Loan and the performance of the obligations under the Original Agreement.

The Credit Agreement establishes a new senior secured revolving credit facility that permits the Borrowers to borrow up to $5,000,000 during the one year period after the closing of the Credit Agreement. The Borrowers may request a borrowing of the Revolving Commitment from time to time, provided that the Borrowers are not entitled to request a borrowing more than once in any calendar month (each borrowing a “Revolving Loan”). Repayment of the Revolving Loans will be secured and guaranteed in the same manner as the Term Loan. Term Loan principal shall be repaid quarterly commencing on September 30, 2008 and consisting of four payments in the amount of $1,125,000, followed by eight payments in the amount of $900,000 and two final payments in the amount of $400,000. There is no prepayment fee. Principal under the Term Loan and the Revolving Loans shall bear interest at a rate per annum equal to the LIBO Rate, as defined in the Credit Agreement, for the applicable Interest Period plus the Applicable Margin. An Interest Period can be one, two, three or six months, at the option of the Borrowers. The Applicable Margin for the Term Loan and the Revolving Loans is 2.5% per annum and 2.0% per annum, respectively. The Borrowers are required to pay a commitment fee in respect of the Revolving Commitment at the rate of 1.5% per annum on the average daily unused portion of the Revolving Commitment. Pursuant to the terms of the Original Credit Agreement, Standard Bank exercised significant control over the operating accounts of MSR located in Mexico and in the United States. Standard Bank’s control over the accounts has been lifted significantly under the terms of the Credit Agreement, giving the Borrowers authority to exercise primary day-to-day control over the accounts. However, the accounts remain subject to an account pledge agreement between MSR and the Lender.

In connection with the refinance proceedings, the Borrowers, as a condition precedent to closing, obtained a waiver letter from the Lender of any default or event of default as a result of not being in compliance with regulations of Mexican federal law with regard to certain filing and environmental bonding issues in connection with the operation of mining the El Chanate concessions as well as certain insurance requirements. The Borrowers have not yet complied with these regulations due to the absence of professionals in the area qualified to conduct studies to facilitate compliance. The Borrowers have agreed to make a commercially reasonable effort to come into compliance with these requirements. See also Note 25 “Subsequent Events”.

NOTE 18 – Mining, Engineering and Supply Contracts

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

On August 2, 2006, the Company amended the November 24, 2005 Mining Contract between its subsidiary, MSR, and Sinergia. Pursuant to the amendment, MSR's right to deliver the Notice to Proceed to Sinergia was extended to November 1, 2006. Provided that this Notice was delivered to Sinergia on or before that date, with a specified date of commencement of the Work (as defined in the contract) not later than February 1, 2007, the mining rates set forth in the Mining Contract would still apply; subject to adjustment for the rate of inflation between September 23, 2005 and the date of commencement of the work. As consideration for these changes, the Company paid Sinergia $200,000 of the requisite advance payment discussed below. On November 1, 2006, MSR delivered the Notice of Award specifying January 25, 2007, as the date of commencement of Work. Based on a revised crushing and stacking plan and since MSR is placing the leach pad overliner material both Sinergia and MSR mutually agreed to delay mining until the end of March 2007. Mining of the El Chanate Project initiated on March 25, 2007.

Pursuant to the Mining Contract, Sinergia, using its own equipment, generally is performing all of the mining work (other than crushing) at the El Chanate Project for the life of the mine. MSR delivered to the Contractor a mobilization payment of $70,000 and the advance payment of $520,000. The advance payments are recoverable by MSR out of 100% of subsequent payments due to Sinergia under the Mining Contract. Pursuant to the Mining Contract, upon termination, Sinergia would be obligated to repay any portion of the advance payment that had not yet been recouped. Sinergia’s mining rates are subject to escalation on an annual basis. This escalation is tied to the percentage escalation in Sinergia’s costs for various parts for its equipment, interest rates and labor. One of the principals of Sinergia is one of the former principals of FG. FG was the Company’s former joint venture partner. As of July 31, 2008, the entire advance payment has been recovered by MSR.

On March 23, 2007, The Company reacquired the remaining 1% net profits interest in its Mexican affiliate, MSR from one of the successors to FG (“FG’s Successor”). When the joint venture was terminated in March 2004, FG received, among other things, a participation certificate entitling it to receive 5% of the annual dividends of MSR, when declared. The participation certificate also gave FG the right to participate, but not to vote, in the meetings of MSR’s Board of Managers, Technical Committee and Partners. In August 2006, the Company repurchased the participation certificate from FG’s Successor for $500,000 with FG’s Successor retaining a 1% net profits interest in MSR, payable only after a total $20 million in net profits has been generated from operations at El Chanate. The Company reacquired the remaining 1% net profits interest in consideration of its advancing $319,000 to Sinergia under the Mining Contract. FG’s Successor is a principal of Sinergia. As of July 31, 2008, the entire advance has been recovered.

NOTE 19 - Employee and Consulting Agreements

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

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

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

The agreements run for a period of three years and automatically renew for successive one-year periods unless the Company or the executive provides the other party with written notice of their intent not to renew at least 30 days prior to the expiration of the then current employment period.

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

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

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

In conjunction with the employment agreements, the Company's board of directors deeming it essential to the best interests of its stockholders to foster the continuous engagement of key management personnel and recognizing that, as is the case with many publicly held corporations, a change of control might occur and that such possibility, and the uncertainty and questions which it might raise among management, might result in the departure or distraction of management personnel to the detriment of the company and its stockholders, determined to reinforce and encourage the continued attention and dedication of members of the Company's management to their engagement without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the company, it entered into identical agreements regarding change in control with the executives. Each of the agreements regarding change in control continues through December 31, 2009 (December 31, 2010 for Mr. Hazlitt) and extends automatically to the third anniversary thereof unless the Company gives notice to the executive prior to the date of such extension that the agreement term will not be extended. Notwithstanding the foregoing, if a change in control occurs during the term of the agreements, the term of the agreements will continue through the second anniversary of the date on which the change in control occurred. Each of the agreements entitles the executive to change of control benefits, as defined in the agreements and summarized below, upon his termination of employment with the Company during a potential change in control, as defined in the agreements, or after a change in control, as defined in the agreements, when his termination is caused (1) by the Company for any reason other than permanent disability or cause, as defined in the agreement (2) by the executive for good reason as defined in the agreements or, (3) by the executive for any reason during the 30 day period commencing on the first date which is six months after the date of the change in control. Each executive would receive a lump sum cash payment of three times his base salary and three times his bonus award from the prior year, as well as outplacement benefits. In addition, the exercise price of all Company options would decrease to $0.01 per share. Each agreement also provides that the executive is entitled to a payment to make him whole for any federal excise tax imposed on change of control or severance payments received by him.

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On September 14, 2007, the Company entered into a Second Amended Engagement Agreement (the "Agreement") with Christopher Chipman, the Company's Chief Financial Officer, effective May 1, 2007. The Agreement supersedes and replaces Mr. Chipman's prior agreement that expired on August 31, 2007. He receives a monthly fee of $14,583. The Agreement expires on August 31, 2009 and automatically renews for successive one-year periods, unless either party gives at least 30 days prior notice to the other party of its intent not to renew. Mr. Chipman can terminate the Agreement on 60 days prior notice. The Company can terminate the Agreement without cause on 30 days prior notice and for cause (as defined in the Agreement). The Agreement also terminates upon Mr. Chipman's disability (as defined in the Agreement) or death. In the event that the Company terminates the Agreement without cause, Mr. Chipman will be entitled to a cash termination payment equal to his Annual Fee in effect upon the date of termination, payable in equal monthly installments beginning in the month following his termination. In the event the Agreement is terminated by Mr. Chipman at his election or due to his death or disability, Mr. Chipman will be entitled to the fees otherwise due and payable to him through the last day of the month in which such termination occurs. In conjunction with Agreement, the Company entered into a change of control agreement similar to the agreements entered into with the Company's other executive officers. In connections with the original engagement agreement with Mr. Chipman in March 2006, Mr. Chipman received a two year option to purchase an aggregate of 50,000 shares of Company Common Stock at an exercise price of $.34 per share. This option has been exercised in full.

On May 12, 2006, the Company entered into an employment agreement with John Brownlie, pursuant to which Mr. Brownlie originally served as Vice President Operations. Mr. Brownlie became our Chief Operating Officer in February 2007. Mr. Brownlie serves as Vice President Operations. Mr. Brownlie receives a base annual salary of $150,000 and is entitled to annual bonuses. Upon his employment, he received options to purchase an aggregate of 200,000 shares of the Company's common stock at an exercise price of $.32 per share. 50,000 options vested immediately and the balance vest upon the Company achieving "Economic Completion" as that term is defined in the Standard Bank Credit Facility (when the Company has commenced mining operations and has been operating at anticipated capacity for 60 to 90 days). The term of the options is two years from the date of vesting. The agreement runs for an initial two year period, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. The Company can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by the Company that is not timely cured, upon 30 days notice. In the event that the Company terminates him without cause or he terminates due to the Company's breach, he will be entitled to certain severance payments. The Company utilized the Black-Scholes method to fair value the 200,000 options received by Mr. Brownlie. The Company recorded approximately $70,000 as deferred compensation expense as of the date of the agreement and recorded the vested portion or $17,500 as stock based compensation expense for the year ended July 31, 2006.

On August 29, 2007, at the recommendation of the Compensation Committee, the Board increased the salaries of the Company's executive officers to be commensurate with industry standards and amended their respective agreements accordingly. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, $250,000; John Brownlie, Chief Operating Officer, $225,000; Christopher Chipman, Chief Financial Officer, $175,000 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, $195,000; Roger A. Newell, Vice President - Development, $135,000; and J. Scott Hazlitt, Vice President - Mine Development, $135,000. The salary increase for Mr. Brownlie and the consulting fee increase for Mr. Chipman were retroactive to May 1, 2007 and the salary increase for Mr. Pritchard is retroactive to August 1, 2007.

On July 17, 2008, at the recommendation of the Compensation Committee of our Board of Directors, our executive officers were awarded salary increases effective August 1, 2008. The new salaries were as follows: Gifford A. Dieterle, President, Treasurer and Chairman of the Board, $287,500; John Brownlie, Chief Operating Officer, $258,750; Christopher Chipman, Chief Financial Officer, $201,250 (consulting fee); Jeffrey W. Pritchard, Vice President - Investor Relations and Secretary, $224,250; and J. Scott Hazlitt, Vice President - Mine Development, $155,250.

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NOTE 20 - Sales Contracts, Commodity and Financial Instruments

In March 2006, in conjunction with the Company’s credit facility, the Company entered into two identically structured derivative contracts with Standard Bank (See Note 15). Each derivative consisted of a series of forward sales of gold and a purchase gold cap. The Company agreed to sell a total volume of 121,927 ounces of gold forward to Standard Bank at a price of $500 per ounce on a quarterly basis during the period from March 2007 to September 2010. The Company also agreed to purchase a gold cap, enabling the company to buy gold on a quarterly basis during this same period and at identical volumes covering a total volume of 121,927 ounces of gold at a price of $535 per ounce. This combination of forward sales with purchased call options synthesizes a put position, which, in turn, serves to put a floor on the Company’s sales price. Critically, the volume of these derivative positions represents about 86 percent of current sales, such that these derivative positions serve only to mitigate the Company’s gold price risk, rather than eliminate or reverse the natural exposure of the Company.

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

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

		(in thousands)
Asset balance as of July 31, 2006	$	(218)
Loss on change in fair value of derivative		1,225
Net cash settlements		(459)
Liability balance as of July 31, 2007	$	548
Loss on change in fair value of derivative		1,359
Net cash settlements		(1,182)
Liability balance as of July 31, 2008	$	725

Rather than modifying the original Gold Price Protection agreement with Standard Bank to satisfy these forward sale obligations, the Company has opted for a net cash settlement between the call option purchase price of $535 and the forward sale price of $500, or $35.00 per oz. Since inception, the Company has paid Standard Bank an aggregate of approximately $1,641,000 on the settlement of 46,883 ounces with corresponding reductions in the Company's derivative liability ($1,181,000 or 25,329 ounces of gold for the fiscal year ended July 31, 2008). . These expenses were incurred concurrently with sales revenues that reflected actual sales of physical gold at market prices well above the option strike price of $535 per ounce. The remaining ounces to settle with regard to this agreement amounted to 75,044 as of July 31, 2008.

On October 11, 2006, prior to our initial draw on the Credit Facility, the Company entered into interest rate swap agreements in accordance with the terms of the Credit Facility. Although the Credit Facility requires that it hedge at least 50% of its outstanding debt under this facility, the Company elected to cover $9,375,000 or 75% of the outstanding debt. The termination date on our existing swap position is December 31, 2010. However, the Company intends to use discretion in managing this risk as market conditions vary over time, allowing for the possibility of adjusting the degree of hedge coverage as it deems appropriate. In any case, the Company's use of interest rate derivatives will be restricted to use for risk management purposes.

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

The interest rate swap agreements are accounted for as cash flow hedges, whereby "effective" hedge gains or losses are initially recorded in other comprehensive income ("OCI") and later reclassified to the interest expense component of earnings coincidently with the earnings impact of the interest expenses being hedged. "Ineffective" hedge results are immediately recorded in earnings also under interest expense. No component of hedge results will be excluded from the assessment of hedge effectiveness. The amount expected to be reclassified from other comprehensive income to earnings during the year ending July 31, 2009 from these two swaps was determined to be immaterial.

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

		(in thousands)
Balance as of July 31, 2006	$	-
Change in fair value of swap agreement		48
Interest expense (income)		-
Net cash settlements		-
Liability balance as of July 31, 2007	$	48
Change in fair value of swap agreement		141
Interest expense (income)		78
Net cash settlements		(62)
Liability balance as of July 31, 2008	$	205

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

The Effect of Derivative Instruments on the Statement of Financial Performance

(in thousands):

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

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

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

	Liability Derivatives	
October 31, 2007	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Other Liabilities	$ 115
Derivatives designated as hedging instruments		
Gold derivatives	Other Liabilities	$ 613
January 31, 2008	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Other Liabilities	$ 313
Derivatives designated as hedging instruments		
Gold derivatives	Other Liabilities	$ 660
April 30, 2008	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Other Liabilities	$ 274
Derivatives designated as hedging instruments		
Gold derivatives	Other Liabilities	$ 702
July 31, 2008	Balance Sheet Location	Fair Values
Derivatives designated as hedging instruments		
Interest rate derivatives	Other Liabilities	$ 205
Derivatives designated as hedging instruments		
Gold derivatives	Other Liabilities	$ 725

NOTE 21 – Accrued Expenses

Accrued expenses at July 31, 2008 and 2007 consists of the following:

	(in thousands) July 31,	
	2008	2007
Net profit interest	$ 753	$ -
Net smelter return	189	-
Mining contract	193	51
Income tax payable	777	-
Utilities	110	165
Interest	72	100
Other liabilities	578	287
	$ 2,672	$ 603

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NOTE 22 - Income Taxes

The Company's Income tax (expense) benefit consisted of:

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

The Company's Income (loss) from operations before income taxconsisted of:

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

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

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

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

	(in thousands) July 31, 2008	July 31, 2007
Net deferred income tax assets, non current:		
Remediation and reclamation costs	$ (29)	$ -
Net operating losses	9,334	8,197
Depreciation and amortization	602	-
	$ 9,907	$ 8,197
Valuation allowances	(9,334)	(8,197)
	$ 573	$ -
Net deferred income tax liabilities, current:		
Depreciation and amortization	$ 12	$ -
Foreign currency exchange	2	
Inventory valuation	(1,925)	
Accounts receivable	(413)	
Other	261	-
	$ (2,063)	$ -

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

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

Companies are required to prepay income taxes on a monthly basis based on the greater of the flat tax or regular income tax as calculated for each monthly period. Annualized income projections indicate that the Company will not be liable for any excess flat tax for calendar year 2008 and, accordingly, has recorded a Mexican income tax provision as of July 31, 2008.

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

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

For income tax purposes in the United States, the Company had available net operating loss carryforwards ("NOL") as of July 31, 2008 and 2007 of approximately $22,179 and $17,464, respectively to reduce future federal taxable income. If any of the NOL's are not utilized, they will expire at various dates through 2027. There may be certain limitations as to the future annual use of the NOLs due to certain changes in the Company's ownership.

NOTE 23 - Commitments and Contingencies

Lease Commitments

The Company occupies office space in New York City under a non-cancelable operating lease that commenced on September 1, 2007 and terminates on August 31, 2012. In addition to base rent, the lease calls for payment of utilities and other occupancy costs.

Approximate future minimum payments under this lease are as follows (in thousands):

Fiscal Years Ending July 31,	
2009	$ 132
2010	142
2011	147
2012	151
2013	13
	$ 585

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

Land Easement

On May 25, 2005, MSR entered into an agreement for an irrevocable access easement and an irrevocable fluids (electricity, gas, water and others) easement to land located at Altar, Sonora, Mexico. The term of the agreement is five years, extendable for 1-year additional terms, upon MSR’s request. The agreement would be suspended only by force majeure or Acts of God; and extendable for the duration of the suspension. In consideration for these easements, $18,000 was paid upon the signing of the agreement and yearly advance payments equal to two annualized general minimum wages (365 X 2 general minimum wages) in force in Altar, Sonora, Mexico, are required. These yearly payments are to be made on September 1 of each year, using the minimum wage in effect on that day for the calculation of the amount payable. These payments are to be made for as long as the construction and production mining works and activities of MSR are being carried out, and are to cease as soon as such works and activities are permanently stopped.

El Charro

In May 2005, the Company acquired rights to the El Charro concession for approximately $20,000 and a royalty of 1.5% of net smelter return. The Company acquired the El Charro concession because it is surrounded entirely by the Company’s other concessions.

NOTE 24 – Unaudited Supplementary Data

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

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

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

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

NOTE 25 – Subsequent Events

On September 18, 2008, the Company closed its Amended And Restated Credit Agreement involving our wholly-owned Mexican subsidiaries MSR and Oro, as Borrowers, the Company, as guarantor, and Standard Bank PLC ("Standard Bank"), as the lender. The Company made its first principal payment of $1,125 on September 30, 2008.

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

These changes, if authorized by the stockholders at the Meeting and if subsequently implemented by our Board of Directors, will be effected by the filing of an Amendment to our Certificate of Incorporation.

On August 11, 2008, Jeffrey Pritchard was appointed our Executive Vice President.

On October 28, 2008, we entered into an Engagement Agreement with John Brownlie, our Chief Operating Officer. The agreement supersedes a May 12, 2006 employment agreement between us and Mr. Brownlie. Pursuant to the Engagement Agreement, Mr. Brownlie serves as our Chief Operating Officer and receives a base annual fee of at least $258,750 and is entitled to annual bonuses. The Engagement Agreement runs through August 31, 2009, and automatically renews thereafter for additional one year periods unless terminated by either party within 30 days of a renewal date. We can terminate the agreement for cause or upon 30 days notice without cause. Mr. Brownlie can terminate the agreement upon 60 days notice without cause or, if there is a breach of the agreement by us that is not timely cured, upon 30 days notice. In the event that we terminate him without cause or he terminates due to our breach, he will be entitled to certain severance payments. We previously entered into a change of control agreement with Mr. Brownlie similar to the agreements entered into with our other executive officers.