

GOLDSRING INC  
Form 10QSB  
November 14, 2005

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-QSB

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-32429

GOLDSRING, INC.

(Exact name of small business issuer as specified in its charter)

|  |  |                                      |
|--|--|--------------------------------------|
| FLORIDA  | 7389   | 65-0955118                           |
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

P.O. Box 1118  
Virginia City, NV 89440  
(775) 847-5272

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-QSB or any amendment to this Form 10-QSB

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: 332,143,694 shares of Common Stock, \$0.000666 Par Value, as of October 31, 2005.



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**Statement Regarding Forward-Looking Statements**

*The statements contained in this report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward looking statements include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper,*

*diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold exploration, including risks of diminishing quantities or grades of reserves; and contests over our title to properties. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1, "Business - Risk Factors" in our Form 10-KSB for the year ended December 31, 2004.*

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**PART I - FINANCIAL INFORMATION**  
**ITEM 1 - FINANCIAL STATEMENTS**  
**GOLDSRING, INC.**

**GOLDSRING, INC.**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET**

| ASSETS  | September 30,<br>2005<br>(Unaudited) | As Restated<br>December 31,<br>2004 |
|---|--------------------------------------|-------------------------------------|
| <b>CURRENT ASSETS:</b>                                      |                                      |                                     |
| Cash and cash equivalents                                   | \$ 112,247                           | \$ 1,951,802                        |
| Prepaid expenses and other current assets                   | 33,999                               | 149,795                             |
| Finished goods inventory                                    | 32,457                               | 239,943                             |
| Inventory   | 29,785                               | 48,745                              |
| Discount on Notes Payable                                   | 648,975                              | -                                   |
| <b>TOTAL CURRENT ASSETS</b>                                 | <b>857,463</b>                       | <b>2,390,285</b>                    |
| <b>PLANT, EQUIPMENT, AND MINERAL PROPERTIES, NET:</b>       |                                      |                                     |
| Mineral properties  | 1,689,837                            | 1,334,837                           |
| Plant and Equipment   | 1,543,764                            | 1,379,614                           |
| Plant, Equipment and Mineral Properties                     | 3,233,601                            | 2,714,451                           |
| Accumulated depreciation                                    | (449,419)                            | (219,834)                           |
| <b>TOTAL PROPERTY AND EQUIPMENT</b>                         | <b>2,784,182</b>                     | <b>2,494,617</b>                    |
| <b>OTHER ASSETS:</b>  |                                      |                                     |
| Reclamation deposit   | 377,169                              | 377,169                             |
| Equipment purchase deposit                                  | 100,000                              | 110,000                             |
| <b>TOTAL OTHER ASSETS</b>                                   | <b>477,169</b>                       | <b>487,169</b>                      |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,118,814</b>                  | <b>5,372,071</b>                    |
| <b>CURRENT LIABILITIES</b>                                  |                                      |                                     |
| Accounts Payable  | \$ 1,191,505                         | \$ 589,799                          |
| Accrued Expenses  | 299,670                              | 792,884                             |
| Accrued Liquidated Damages                                  | 1,758,676                            | -                                   |
| Accrued Interest  | 505,708                              | -                                   |
| Short-Term Lease Obligations                                | 34,771                               | 34,517                              |
| Current portion of long-term debt                           | 15,667,772                           | 11,521,776                          |
| <b>TOTAL CURRENT LIABILITIES</b>                            | <b>19,458,102</b>                    | <b>12,938,976</b>                   |
| <b>LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES</b>       |                                      |                                     |
| Long-term debt, net of current portion                      | 132,795                              | 243,858                             |
| Long-term Lease obligation, net of current portion          | 89,463                               | 119,152                             |
| Long-term Reclamation liability                             | 553,190                              | 553,190                             |
| <b>TOTAL LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES</b> | <b>775,448</b>                       | <b>916,200</b>                      |
| <b>TOTAL LIABILITIES</b>                                    | <b>\$ 20,233,550</b>                 | <b>\$ 13,855,176</b>                |

## SHAREHOLDERS' DEFICIT

Common stock, \$.000666 par value, 500,000,000

|   |           |                     |           |                    |
|---|-----------|---------------------|-----------|--------------------|
| shares authorized , 328,785,390 shares issued and outstanding | \$        | 218,971             | \$        | 113,966            |
| Treasury Stock  |           | (67)                |           | (67)               |
| Additional paid-in capital                                    |           | 5,490,349           |           | 3,574,272          |
| Accumulated deficit - Prior years                             |           | (12,171,276)        |           | (2,601,741)        |
| Accumulated deficit - Current year                            |           | (9,652,713)         |           | (9,569,535)        |
| <b>TOTAL SHAREHOLDERS' DEFICIENCY</b>                         |           | <b>(16,114,736)</b> |           | <b>(8,483,105)</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>         | <b>\$</b> | <b>4,118,814</b>    | <b>\$</b> | <b>5,372,071</b>   |

*The accompanying notes are an integral part of these financial statements.*

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**GOLDSRING, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the three month periods ended September 30,**

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) -<br>restated |
|---|---------------------|-----------------------------------|
| REVENUE FROM GOLD SALES, NET                      | \$ 951,586          | \$ 450,252                        |
| <b>COSTS AND EXPENSES</b>                         |                     |                                   |
| Depletion, depreciation and amortization          | 72,899              | 243,836                           |
| Reclamation, Exploration and Test Mining Expenses | 1,061,186           | 690,856                           |
| General and administrative                        | 102,140             | 289,627                           |
| Other   | 55,311              | 195,734                           |
| <b>TOTAL COSTS AND EXPENSES</b>                   | <b>1,291,536</b>    | <b>1,420,053</b>                  |
| <b>OTHER INCOME (EXPENSE)</b>                     |                     |                                   |
| Gain on derivative instruments, net               | -                   | 49,310                            |
| Liquidated Damages                                | (1,758,676)         | -                                 |
| Other   | -                   | -                                 |
| Interest expense                                  | (882,216)           | -                                 |
| Interest income                                   | -                   | 20,110                            |
|   | (2,640,892)         | 69,420                            |
| <b>NET LOSS</b>                                   | <b>(2,980,842)</b>  | <b>(900,381)</b>                  |
| Net loss per common share - basic                 | \$ (0.011)          | \$ (0.005)                        |
| Basic weighted average common shares outstanding  | 278,751,210         | 192,859,611                       |

*The accompanying notes are an integral part of these financial statements.*

**GOLDSRING, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the nine month periods ended September 30,**

|   | 2005<br>(Unaudited) | 2004<br>(Unaudited) -<br>restated |
|---|---------------------|-----------------------------------|
| REVENUE FROM GOLD SALES, NET                      | \$ 2,155,538        | \$ 450,252                        |
| <b>COSTS AND EXPENSES</b>                         |                     |                                   |
| Depletion, depreciation and amortization          | 229,584             | 243,836                           |
| Reclamation, Exploration and Test Mining Expenses | 3,870,316           | 690,856                           |
| General and administrative                        | 779,372             | 960,309                           |
| Consulting and professional services              | 717,774             | 341,880                           |
| TOTAL COSTS AND EXPENSES                          | 5,597,046           | 2,236,881                         |
| <b>OTHER INCOME (EXPENSE)</b>                     |                     |                                   |
| Gain on derivative instruments, net               | -                   | 444,460                           |
| Liquidated Damages                                | (4,619,144)         | -                                 |
| Other   | -                   | (42,180)                          |
| Interest expense                                  | (1,605,587)         | -                                 |
| Interest income                                   | 13,526              | 32,746                            |
|   | (6,211,205)         | 435,026                           |
| NET LOSS  | (9,652,713)         | (1,351,603)                       |
| Net loss per common share - basic                 | \$ (0.042)          | \$ (0.007)                        |
| Basic weighted average common shares outstanding  | 232,206,184         | 187,168,336                       |

*The accompanying notes are an integral part of these financial statements.*



**GOLDSRING, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the nine month periods ended September 30,

|  | 2005<br>(Unaudited) | 2004<br>(Unaudited)<br>-restated |
|--|---------------------|----------------------------------|
| Cash flows from operating activities:  |                     |                                  |
| Net loss   | \$ (9,652,713)      | \$ (1,351,603)                   |
| Adjustments to reconcile net loss to net cash used in operating activities:  |                     |                                  |
| Depreciation, depletion, and amortization                                    | 229,584             | 223,820                          |
| Accretion of accumulated reclamation obligations                             | -                   | 5,940                            |
| Write-down of long lived assets  | -                   | 14,076                           |
| Liquidated damages from March 2004 financing and November 2004 restructuring | 4,619,144           | -                                |
| Consulting services provided in exchange for common stock                    | -                   | 42,000                           |
| (Increase) Decrease in operating assets:                                     |                     |                                  |
| Finished goods inventory   | 207,486             | (197,212)                        |
| Inventory  | 18,960              | 13,165                           |
| Prepaid and other current assets   | 115,796             | (21,123)                         |
| Other assets   | -                   | (60,000)                         |
| Increase (decrease) in operating liabilities:                                |                     |                                  |
| Accounts payable   | 601,706             | 890,414                          |
| Accrued expenses   | 782,162             | 135,000                          |
| Other  | (68,999)            | 20,015                           |
| Total Adjustments to Reconcile Net Loss Used in Operating Activities         | 6,505,839           | 1,066,095                        |
| Net cash used in operating activities  | (3,146,874)         | (285,508)                        |
| Investing activities:  |                     |                                  |
| Equipment deposit  | (10,000)            | -                                |
| Acquisition of plant, equipment and mineral properties                       | (369,150)           | (3,974,088)                      |
| Net cash used in investing activities  | (379,150)           | (3,974,088)                      |
| Financing activities:  |                     |                                  |
| Net Proceeds from Issuance of Stock  | -                   | -                                |
| Proceeds from financing, net   | 885,410             | 9,428,780                        |
| Purchase and Cancellation of Company's Stock                                 | -                   | (150,000)                        |
| Purchase of Company's Stock and Recorded to Treasury                         | -                   | (75,000)                         |
| Conversion of debt into Company's common shares                              | 885,812             | -                                |
| Issuance of Note for acquisition of mining claims                            | 160,000             | -                                |
| Principal payment Note Payable   | (244,753)           | (300,000)                        |
| Net Cash flows provided by financing activities                              | 1,686,469           | 8,903,780                        |
| Net Increase (Decrease) in cash  | (1,839,555)         | 4,644,184                        |
| Cash - beginning of period   | 1,951,802           | 364,138                          |
| Cash - end of period   | \$ 112,247          | \$ 5,008,322                     |
| Supplemental disclosures of non-cash investing and financing activities:     |                     |                                  |
| Issuance of notes for liquidated damages for failure to deliver shares       | \$ 403,175          | \$ -                             |
| Issuance of notes for mandatory redemption payment plus accrued interest     | \$ 6,885,184        | \$ -                             |

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|   |              |            |
|---|--------------|------------|
| Purchase and cancellation of common stock in connection with mandatory redemption payment | \$ 6,801,975 | \$ -       |
| Purchase of assets  | \$           | \$ 168,202 |
| Issuance of Company stock for acquisition of mining claims                                | \$ 150,000   | \$ -       |
| Issuance of Company stock for interest expense  | \$ 989,008   | \$ -       |
| Issuance of Company stock for liquidated damages  | \$ 2,983,952 | \$ -       |

*The accompanying notes are an integral part of these financial statements.*

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GOLDSRING, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 September 30, 2005 AND 2004

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES/ OVERVIEW**

**Forward-Looking Statements**

The following discussion contains, in addition to historical information, forward-looking statements regarding GoldSpring, Inc. ("we," the "Company," or "GSPG"), that involve risks and uncertainties. Our actual results could differ materially. For this purpose, any statements contained in this Report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue" or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. Factors that could cause or contribute to such differences include possible need for additional financing; dependence on management; government regulation; and other factors discussed in this report and the Company's other filings with the Securities and Exchange Commission.

**Basis of Presentation**

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the financial statements and footnotes thereto included in our Form 10-KSB Report for the fiscal year ended December 31, 2004.

*Restatement of Financial Statements*

Upon review of the standards for reporting mineral reserves as defined by SEC Industry Guide 7 ("Guide 7"), we have concluded that we did not have sufficient information to establish the existence of reserves as of December 31, 2004 and that certain costs that we had incurred in the development of our mining facility must be expensed as exploration or "test mining" costs. We have restated our 2004 annual financial statement to classify all costs previously capitalized (the recovery of which is dependent upon the economical extraction of gold from the mineralized material we are currently processing), as test mining expenses. These costs, which total approximately \$4.5 million net of accumulated depreciation, include our asset retirement obligation asset of \$453,786. In connection with our restatement of our mineral property assets, we have also reversed depletion taken on our mineral properties totaling \$43,256.

**NOTE B -LIQUIDATED DAMAGES**

For the third quarter of 2005 (ended September 30, 2005), we recorded liquidated damages expenses due to investors of our March 2004 offering and subsequent November 30, 2004 restructuring as follows:

|   |              |
|---|--------------|
| Liquidated damages relating to:               |              |
| November 30, 2004 Non-Registration Provisions | \$ 1,758,676 |
|   | \$ 1,758,676 |



*Non-Registration Provisions*

Our SB-2 Registration Statement was declared effective on October 3, 2005, which caused the liquidated damages referenced in this Note to cease accruing. The liquidated damages arose from our November 2004 subscription agreement, which required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement during the period of his purported control of our company. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Accordingly, at December 31, 2004, we had accrued \$222,013 of liquidated damages relating to Non-Registration Provisions. The liquidated damages continued to accrue in the amount of 2% of the face value of the note for each 30-day period or part thereof after December 30, 2004 until our registration statement was declared effective. For the quarter ended September 30, 2005, the accrued liquidated damages totaled \$ 1,758,676.

**NOTE C - MANDATORY REDEMPTION PAYMENT**

Under the terms of the November 2004 subscription agreement, convertible note holders have the right to a mandatory redemption payment in the event we are prohibited or otherwise fail to deliver shares of our common stock to converting note holders. The mandatory redemption payment is calculated as an amount equal to the product of the number of shares of common stock otherwise deliverable upon conversion of the note's principal and interest multiplied by the highest price of our common stock for the period beginning with the Deemed Conversion Date (the date the holder elects to convert the note) and ending with the payment date. On March 7, 2005, we received a mandatory redemption payment demand relating to our failure to deliver stock certificates representing 29,573,803 shares of our common stock. Under the mandatory redemption payment provisions of the November 2004 subscription agreement, we repurchased the 29,573,803 shares of common stock at \$0.23 per share, or \$6,801,975. We issued a secured convertible note in the aggregate amount of \$6,885,184 with a 12% interest rate for the 29,573,803 shares and accrued interest. Payments on this note were scheduled to begin on April 1, 2005. We are in default on this note, causing the interest rate to increase to the default rate of 18%.

## **Item 2. Management's Discussion and Analysis or Plan of Operations**

The following discussion provides information that we believe is relevant to an assessment and understanding of the consolidated results of operations and financial condition of our company. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes. The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the quarter ended September 30, 2005, as well as our future results.

### *Overview*

We are an emerging North American precious metals mining company, which was formed in June 2003. In less than two years, we have brought a gold and silver project into production, established a solid footprint around our operations in northern Nevada, and acquired mineral rights in Canada. We plan to build on this success through the acquisition of mineral properties in North America that can be efficiently put into near-term production. Our objectives are to increase reserves, increase production and increase cash flow to maximize return for our shareholders.

2005 has been a year filled with challenges for our Company. In addition to trying to bring our Plum Mine operation into profitable production, we have continued to experience the costs and the distractions of the litigation that has impacted our Company since late 2004. The litigation has been a drain on our scarce capital and human resources. (See Part II, Item 1, "Legal Proceedings," for a detailed discussion.) We are committed to finding a resolution to our pending litigation matters that will allow our management to focus on building a successful, profitable operation. We are actively seeking financing to meet our working capital needs. If we are unable to secure such financing, we may be unable to continue as a going concern.

In March 2005, we initiated a program to evaluate each process of our mining operation. The intent of the program is to identify additional efficiencies that can be implemented to improve our overall performance. The program commenced with our hiring of Scott Jolcover as the mine manager. Mr. Jolcover has significant experience in gold mining, primarily around the area of our current operation. To date we have made modifications to our processing plant, equipment and operations to increase operating efficiency and improve our financial performance. In the spirit of maximizing overall operating performance and reducing costs, in August 2005, we consolidated our corporate office with the Plum Mine facility. The relocation has reduced costs and allowed for more effective utilization of our resources, both human and capital.

The new contact information for the corporate office, effective August 1, 2005, is:

P.O. Box 1118  
Virginia City, NV 89440  
Tel 775.847.5272  
Fax 775.847.4762  
[www.goldspring.us](http://www.goldspring.us)

### Additional Contact Information:

Lisa Boksenbaum, Corporate and Investor Relations  
(480) 203-0510  
E-mail: [lisab@goldspring.us](mailto:lisab@goldspring.us)

We continue to look for growth opportunities. On August 31, 2005, we completed the acquisition of the leases on three patented mineral claims from Comstock Gold, LLC. The Justice, Woodville, and Keystone claims are adjacent

to our existing operation at the Plum Mine. In September 2005, we signed a purchase agreement to acquire the leases on an additional 19 mineral claims in the same region from Comstock Gold, LLC. These acquisitions expand our footprint in the Comstock Lode region and have the potential for expanding the life of our existing Plum Mine operation. The addition of these properties should also provide an opportunity to expand our exploration program and improve our geologic understanding of the physical area and its trends.

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We held our Annual Shareholders' Meeting on October 26, 2005 in Carson City, Nevada. At that meeting, our shareholders elected the following slate of five independent directors: Christopher L. Aguilar, Todd S. Brown, Stanley A. Hirschman, Bill Nance and Rex L. Outzen. The new Board of Directors elected Mr. Aguilar to serve as Chairman of the Board. The Board also re-elected Robert Faber to serve as our Company's President and Chief Executive Officer and elected Lisa Boksenbaum to serve as our Company's Secretary and Treasurer. The results of the election can be found below in Part II, Item 4 "Submission of Matters to a Vote of Security Holders".

### ***Results of Operations and Operational Plan***

During the third quarter of 2005, our Company continued to focus on operations and efficiencies. One of the operational improvements was our takeover of the crushing operations at the Plum Mine, which provided us with the opportunity to have greater control over our overall operations and production results. Our third-party crushing contractor had struggled to provide us with continuous crushing services, straining our ability to increase our gold production. On July 20, 2005, our third-party contractor shut down their crushing operations, so that they could dismantle and remove their crushing circuit, creating space for the installation of our crushing circuit. We invested approximately \$200,000 procuring conveyors and installing the crushing circuit. The contractor continued their mining at the Plum Mine until August 11, 2005, at which time mining was suspended due to a lack of space to stockpile the uncrushed mineralized material. Delays in the arrival of the conveyor systems for the crushing circuit resulted in our missing our targeted completion date for the circuit by approximately 30 days. Crushing operations resumed on October 1, 2005, and mining operations resumed on November 7, 2005. The delay in resuming our crushing operations impacted our ability to place new mineralized material on the pad and has resulted in lower gold production for the third quarter. The results of our crushing in October 2005 were positive. We crushed 40,000 tons of stockpiled mineralized material. We believe we are on track to achieve our operating goals for crushing and to realize the financial savings anticipated in taking over the crushing operations.

We added Steve Russell, a geologist with over 20 years of experience in the Comstock Lode district, to our team in October 2005. One of his primary responsibilities is to oversee ore control in the mine pit. We believe that better ore control in the pit will reduce dilution, thus improving the grade of mineralized material being placed on the leach pad and increasing gold production.

In the remainder of 2005, we plan to focus the bulk of our efforts on achieving additional operational improvements in both production and efficiency at our Plum Mine operation. We are continuing to pursue operational improvements through enhancements to our existing processes. These enhancements are expected to stem from increasing our volume of production combined with lowering the cost of our processes. We are optimistic that the addition of a geologist to manage ore control will lead to higher recovery rates, and increased gold production. Our objective for operational performance in 2005 is to establish a stable and predictable level of gold and silver production at the Plum Mine resulting in profitability and positive cash flow.

### ***Comparative Financial Information:***

|   | Nine Months ended<br>September 30, 2005 | Nine Months ended<br>September 30, 2004 | Difference   |
|---|---|---|--------------|
| Revenue   | \$ 2,155,538                            | \$ 450,252                              | \$ 1,705,286 |
| Reclamation, Exploration and Test Mining Expenses | \$ 3,870,316                            | \$ 690,856                              | \$ 3,179,460 |
| Liquidated Damages                                | \$ 4,619,144                            | \$ 0.0                                  | \$ 4,619,144 |



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|                  |    |               |    |               |    |               |
|------------------|----|---------------|----|---------------|----|---------------|
| Interest Expense | \$ | 1,605,587     | \$ | 0.0           | \$ | 1,605,587     |
| Net Loss         |    | (\$9,652,713) |    | (\$1,351,603) |    | (\$8,301,110) |

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We sold 5,004 ounces of gold at an average price of \$431 per ounce during the nine-month period ended September 30, 2005 compared to gold sales of 1,124 ounces at an average price of \$ 400 per ounce during the same period of 2004. We spent the first six months of 2004 completing the required infrastructure to complete our “test mine” and did not sell any gold until the third quarter of 2004.

Reclamation, Exploration and Test Mining Expenses were \$3,179,460 more for the first nine months of 2005 than the same period in 2004. This 2005 expense increase reflects the transition to full-time “test mining” in 2005. During the first nine months of 2004, our focus was on building the infrastructure for our mining operation. The third quarter of 2004 was the first quarter in which we conducted full-scale test mining. Our Company is an Exploration Stage enterprise as defined by SEC Industry Guide 7, and, in accordance with SEC Industry Guide 7, infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

|  | <b>Quarter ended<br/>September 30, 2005</b> | <b>Quarter ended<br/>September 30, 2004</b> | <b>Difference</b> |
|--|---|---|-------------------|
| Revenue  | \$ 951,586                                  | \$ 450,252                                  | \$ 501,334        |
| Reclamation, Exploration and Test Mining Expense | \$ 1,061,186                                | \$ 690,856                                  | \$ 370,330        |
| Liquidated Damages                               | \$ 1,758,676                                | \$ 0.0                                      | \$ 1,758,676      |
| Interest Expense                                 | \$ 882,216                                  | \$ 0.0                                      | \$ 882,216        |
| Net Loss   | (\$2,980,842)                               | (\$900,381)                                 | (\$2,000,461)     |

During the third quarter of 2005 we sold 2,187 ounces of gold at an average price of \$ 435 per ounce compared to gold sales of 1,124 ounces at an average price of \$ 400 per ounce during the same period of 2004. Our “test mine” became operational during the third quarter 2004, which was our first quarter of selling gold. Prior to the 3<sup>rd</sup> quarter 2004 we were focused on constructing the required infrastructure to complete our “test mine.”

Reclamation, Exploration and Test Mining Expenses in the third quarter of 2005 were \$370,330 more than the third quarter of 2004. This variance reflects the exploration drilling performed during the third quarter of 2005 plus the shift from infrastructure construction to “test mining.” As detailed above, our Company is an Exploration Stage enterprise and in accordance with Industry Guide 7 infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

The liquidated damages included in the tables above stemmed from Non-Registration Events Provisions in our November 2004 Subscription Agreement (“Non-Registration Provisions”). The Non-Registration Provisions required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to be incurred at a rate of two percent (2%) of the principal amount of the Debenture for each thirty day period or part thereof for not having an effective Registration Statement. We have the option to pay the liquidated damages in cash or common stock. If we choose to pay in stock, we are required to pay 200% of the liquidated damages amount. Because our Company does not currently have sufficient funds to pay in cash, we intend to meet this obligation by issuing common shares. Thus, the total amount of liquidated damages recorded for the third quarter represents 200% of the cash total. The liquidated damages ceased when our registration statement became effective on October 3, 2005.



At September 30, 2005, our Company had approximately \$15,500,000 of outstanding debt bearing an average interest rate of 15%. This debt originated from our November 2004 restructuring of the March 2004 private placement, in which common shares were exchanged for convertible debt currently bearing interest at 15% per annum. (See "Recent Financing Events and Restructuring," below) Prior to November 2004, our Company had no outstanding interest-bearing debt.

### ***Placer Claims, Water Rights, and Mineral Permits***

We originally became a mineral company through an acquisition of unpatented placer mineral claims and the Big Mike copper claims in June 2003 from Ecovery, Inc. The transaction had an effectuation date of March 11, 2003. Specifically, that acquisition provided us with a number of Nevada-based placer claims, including the Gold Canyon and Spring Valley claims, and 17 unpatented lode claims called the Big Mike Copper Project. This acquisition did not include any real property rights. In November 2003, we acquired the Plum Mine facility as well as water rights that are usable at Plum Mine and the Gold Canyon and Spring Valley placer claims. In a separate transaction, we obtained mineral permits in Alberta, Canada in May 2004.

The Big Mike Copper Project is located in Pershing County, Nevada. It covers a total of 310 acres and consists of 17 unpatented lode claims and one placer claim. We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. We have not completed any exploration activity on the project. The property includes an open pit, mineralized material in a stockpile and waste dumps. We are actively looking for a business partner to develop this project.

In May 2004, the Alberta government granted us mineral permits for all non-energy minerals on nearly 800 square miles of Alberta, Canada mineral property. Iron bearing material was discovered in the area covered by our mineral permits in 1953 from oil and gas drilling. From 1995 through 1997, a series of tests were performed that showed the mineralized material present was amenable to treatment to produce iron pellets and pig iron. We have reviewed the existing data and conducted a preliminary pre-feasibility study on the property. This is an early stage project and our activities associated with this mineral area are exploratory in nature. We have not established any reserves on this property. The scope and size of this potential project will require substantial capital, time and outside assistance during both the pre- and post-feasibility stages. We are considering several financial alternatives, including a joint venture, to develop this project.

### ***Liquidity and Capital Resources***

We recognize that our cash resources are limited. Our continued existence and plans for future growth depend on our ability to obtain the capital necessary to operate, through the generation of revenue or the issuance of additional debt or equity. In the third quarter of 2005, we received \$1,000,000 in financing (See "Recent Financing Events and Restructuring," below). While this additional funding may meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. We have yet to realize an operating profit at our Plum Mine location. As disclosed in the report of our independent registered public accounting firm in our financial statements provided in our Form 10-KSB for the year ended December 31, 2004, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

Furthermore, the litigation that our Company has been involved in since late 2004 has strained the Company's financial resources. (See Part II, Item 1, "Legal Proceedings," for a detailed discussion.) If we are unable to resolve the litigation in the near future, the ongoing legal costs may impact our ability to continue as a going concern.

Under the terms of our November 2004 subscription agreement, we issued 8% convertible notes to an investor group. Under the terms of the notes, our first principal and interest repayment was scheduled for April 1, 2005. We are in

default on these notes. We are working with the note holders to cure the default. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligation, there can be no assurance that such funding would be available.

In March 2005, we issued a secured convertible note in the aggregate amount of \$6,885,184 with a 12% interest rate for the 29,573,803 shares and accrued interest due under the mandatory redemption payment provisions of our November 2004 subscription agreement. Payments on this note were scheduled to begin on April 1, 2005. We are in default on this note, causing the interest rate to increase to the default rate of 18%. We are working with the note holder to cure the default. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligation, there can be no assurance that such funding would be available.

During the third quarter, we took over the crushing operations from our third-party contractor. This transition required us to acquire and assemble our own crushing equipment at an approximate cost of \$200,000. We financed the crushing equipment through the issuance of secured notes to existing shareholders. We expect to expand our existing leach pads, which currently number three, to a total of five leach pads during 2006. The cost of this expansion will be approximately \$600,000. We intend to finance our leach pad expansion project and any other capital expenditures in the remainder of 2005 and 2006 through the issuance of debt or equity instruments to existing shareholders and other parties. There can be no assurance that such financing will be available.

## **RISK FACTORS**

*Before you invest in our common stock, you should be aware that there are risks, including those set forth below. You should carefully consider these risk factors, together with all the other information included in this prospectus, before you decide to purchase shares of our common stock.*

### **Risks Related to Our Business**

***We have limited resources and our inability to obtain additional financing could affect our ability to continue as a going concern.***

We have incurred substantial losses since our inception, and we are currently experiencing a cash flow deficiency from operations. Our current cash flow and capital resources are limited, and we will require additional funds to pursue our business. We may not be able to secure further financing in the future. If we are not able to obtain additional financing on reasonable terms, we may not be able to execute our business strategy, conduct our operations at the level desired, or even to continue business.

***We have received a qualified report from our independent auditors.***

The report by the independent auditors on our financial statements indicates that our financial statements have been prepared assuming that we will continue as a going concern. The report indicates that our recurring losses from operations and working capital deficit raise substantial doubt about our ability to continue as a going concern.

***We have invested capital in high-risk mineral projects where we have not conducted significant exploration and engineering studies.***

We have invested capital in various mineral properties and projects in North America where we may not have conducted sufficient exploration and engineering studies to minimize the risk of project failure to the extent that is typical in the mining industry. Our mineral projects involve high risks because we have not invested substantial sums in the characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, and economic analysis to the same extent that other mining companies might deem reasonable. Standard industry practice calls for a mining company to prepare a formal mine plan and mining schedule and have these documents reviewed by a third party specialist. We have prepared a formal mine plan and mining schedule, and these documents are in the process of being reviewed by a third party specialist.

***We will not be successful unless we recover precious metals and sell them for a profit.***

Our success depends on our ability to recover precious metals, process them, and successfully sell them for more than the cost of production. The success of this process depends on the market prices of metals in relation to our costs of production. We may not always be able to generate a profit on the sale of gold or other minerals because we can only maintain a level of control over our costs and have no ability to control market prices. The total cash costs of production at any location are frequently subject to great variation from year to year as a result of a number of factors, such as the changing composition of ore grade or mineralized material production and metallurgy and exploration activities in response to the physical shape and location of the ore body or deposit. In addition, costs are affected by the price of commodities, such as fuel and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production at certain operations less profitable. A material increase in production costs or a decrease in the price of gold or other minerals could adversely affect our ability to earn a profit on the sale of gold or other minerals.



***The cost of our exploration and acquisition activities are substantial, and there is no assurance that the quantities of minerals we discover or acquire will justify commercial operations or replace reserves established in the future.***

Mineral exploration, particularly for gold and other precious metals, is highly speculative in nature, involves many risks, and frequently is nonproductive. There can be no assurance that our exploration and acquisition activities will be commercially successful. Once gold mineralization is discovered, it may take a number of years from the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to acquire existing gold properties, to establish ore reserves through drilling and analysis, to develop metallurgical processes to extract metal from the ore, and in the case of new properties, to develop the processing facilities and infrastructure at any site chosen for mineral exploration. There can be no assurance that any gold reserves or mineralized material that may be discovered or acquired in the future will be in sufficient quantities or of adequate grade to justify commercial operations or that the funds required for mineral production operation can be obtained on a timely or reasonable basis. Mineral exploration companies must continually replace mineralized material or reserves depleted by production. As a result, there can be no assurance that we will be successful in replacing any reserves or mineralized material acquired or established in the future.

***The price of gold fluctuates on a regular basis, and a downturn in price could negatively impact our operations and cash flow.***

Our operations are significantly affected by changes in the market price of gold. Gold prices can fluctuate widely and may be affected by numerous factors, such as expectations for inflation, levels of interest rates, currency exchange rates, central bank sales, forward selling or other hedging activities, demand for precious metals, global or regional political and economic crises, and production costs in major gold-producing regions, such as South Africa and the former Soviet Union. The aggregate effect of these factors, all of which are beyond our control, is impossible for us to predict. The demand for and supply of gold affect gold prices, but not necessarily in the same manner as supply and demand affect the prices of other commodities. The supply of gold consists of a combination of new mineral production and existing stocks of bullion and fabricated gold held by governments, public and private financial institutions, industrial organizations, and private individuals. As the amount produced in any single year constitutes a small portion of the total potential supply of gold, normal variations in current production do not have a significant impact on the supply of gold or on its price. If gold prices decline substantially, it could adversely affect the realizable value of our assets and potential future results of operations and cash flow.

***The use of hedging instruments may not prevent losses being realized on subsequent price decreases or may prevent gains being realized from subsequent price increases.***

We may from time to time sell some future production of gold pursuant to hedge positions. If the gold price rises above the price at which future production has been committed under these hedge instruments, we will have an opportunity loss. However, if the gold price falls below that committed price, our revenues will be protected to the extent of such committed production. In addition, we may experience losses if a hedge counterparty defaults under a contract when the contract price exceeds the gold price. As of the date of filing of this report, we have no open hedge positions.

***Since our business consists of exploring for or acquiring gold prospects, the drop in the price of gold will negatively affect our asset values, cash flows, potential revenues and profits.***

We plan to pursue opportunities to acquire properties with gold mineralized material or reserves with exploration potential. The price that we pay to acquire these properties will be influenced, in large part, by the price of gold at the time of the acquisition. Our potential future revenues are expected to be derived from the production and sale of gold from these properties or from the sale of some of these properties. The value of any gold reserves and other mineralized material, and the value of any potential mineral production therefrom, will vary in direct proportion to



variations in those mineral prices. The price of gold has fluctuated widely as a result of numerous factors beyond our control. The effect of these factors on the price of gold, and therefore the economic viability of any of our projects, cannot accurately be predicted. Any drop in the price of gold would negatively affect our asset values, cash flows, and potential revenues and profits.

***We compete with other mineral exploration and mining companies.***

We compete with other mineral exploration and mining companies or individuals, including large, established mining companies with substantial capabilities and financial resources, to acquire rights to mineral properties containing gold and other minerals. There is a limited supply of desirable mineral lands available for claim staking, lease, or other acquisition. There can be no assurance that we will be able to acquire mineral properties against competitors with substantially greater financial resources than we have.

***Our activities are inherently hazardous and any exposure may exceed our insurance limits or may not be insurable.***

Mineral exploration and operating activities are inherently hazardous. Operations in which we have direct or indirect interests will be subject to all the hazards and risks normally incidental to exploration and production of gold and other metals, any of which could result in work stoppages, damage to property, and possible environmental damage. The nature of these risks is such that liabilities might exceed any liability insurance policy limits. It is also possible that the liabilities and hazards might not be insurable, or we could elect not to insure ourselves against such liabilities because of the high premium costs, in which event, we could incur significant costs that could have a material adverse effect on our financial condition.

***We do not have proven or probable reserves, and our mineral calculations are only estimates; any material change may negatively affect the economic viability of our properties.***

Substantial expenditures are required to acquire existing gold properties with established reserves or to establish proven or probable reserves through drilling and analysis. We do not anticipate expending sums for additional drilling and analysis to establish proven or probable reserves on our properties. We drill in connection with our mineral exploration activities and not with the purpose of establishing proven and probable reserves. Therefore, our activity must be called exploration or test mining. While we estimate the amount of mineralized material we believe exists on our properties, our calculations are estimates only, subject to uncertainty due to factors, including the quantity and grade of ore, metal prices, and recoverability of minerals in the mineral recovery process. There is a great degree of uncertainty attributable to the calculation of any mineralized material, particularly where there has not been significant drilling, mining, and processing. Until the mineralized material located on our properties is actually mined and processed, the quantity and quality of the mineralized material must be considered as an estimate only. In addition, the quantity of mineralized material may vary depending on metal prices. Any material change in the quantity of mineralized material may negatively affect the economic viability of our properties. In addition, there can be no assurance that we will achieve the same recoveries of metals contained in the mineralized material as in small-scale laboratory tests or that we will be able to duplicate such results in larger scale tests under on-site conditions or during production.

***Our operations are subject to strict environmental regulations, which result in added costs of operations and operational delays.***

Our operations are subject to environmental regulations, which could result in additional costs and operational delays. All phases of our operations are subject to environmental regulation. Environmental legislation is evolving in some jurisdictions in a manner that may require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors, and employees. There is no assurance that any future changes in environmental regulation will not negatively affect our projects.

***We have no insurance for environmental problems.***

Insurance against environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production, has not been available generally in the mining industry. We have no insurance coverage for most environmental risks. In the event of a problem, the payment of environmental liabilities and costs would reduce the funds available to us for future operations. If we are unable to fund fully the cost of remedying an environmental problem, we might be required to enter into an interim compliance measure pending completion of the required remedy.

***We are subject to federal laws that require environmental assessments and the posting of bonds, which add significant costs to our operations and delays in our projects.***

The Bureau of Land Management requires that mining operations on lands subject to its regulation obtain an approved plan of operations subject to environmental impact evaluation under the National Environmental Policy Act. Any significant modifications to the plan of operations may require the completion of an environmental assessment or Environmental Impact Statement prior to approval. Mining companies must post a bond or other surety to guarantee the cost of post-mining reclamation. These requirements could add significant additional cost and delays to any mining project undertaken by us. Our mineral exploration operations are required to be covered by reclamation bonds deemed adequate by regulators to cover these risks. We believe we currently maintain adequate reclamation bonds for our operations.

***Changes in state laws, which are already strict and costly, can negatively affect our operations by becoming stricter and costlier.***

At the state level, mining operations in Nevada are regulated by the Nevada Division of Environmental Protection, or NDEP. Nevada state law requires our Nevada projects to hold Nevada Water Pollution Control Permits, which dictate operating controls and closure and post-closure requirements directed at protecting surface and ground water. In addition, we are required to hold Nevada Reclamation Permits required under Nevada law. These permits mandate concurrent and post-mining reclamation of mines and require the posting of reclamation bonds sufficient to guarantee the cost of mine reclamation. Other Nevada regulations govern operating and design standards for the construction and operation of any source of air contamination and landfill operations. Any changes to these laws and regulations could have a negative impact on our financial performance and results of operations by, for example, requiring changes to operating constraints, technical criteria, fees or surety requirements.

***Title claims against our properties could require us to compensate parties, if successful, and divert management's time from operations.***

There may be challenges to our title in the properties in which we hold material interests. If there are title defects with respect to any of our properties, we might be required to compensate other persons or perhaps reduce our interest in the effected property. The validity of unpatented mineral claims, which constitute most of our holdings in the United States, is often uncertain and may be contested by the federal government and other parties. The validity of an unpatented mineral claim, in terms of both its location and its maintenance, depends on strict compliance with a complex body of federal and state statutory and decisional law. Although we have attempted to acquire satisfactory title to our properties, we have not obtained title opinions or title insurance with respect to the acquisition of the unpatented mineral claims. While we have no pending claims or litigation pending contesting title to any of our properties, there is nothing to prevent parties from challenging our title to any of our properties. While we believe we have satisfactory title to our properties, some risk exists that some titles may be defective or subject to challenge. Also, in any such case, the investigation and resolution of title issues would divert management's time from ongoing exploration programs.

***We have never paid a cash dividend on our common stock and do not expect to pay cash dividends in the foreseeable future.***

We have never paid cash dividends, and we do not plan to pay cash dividends in the foreseeable future. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no assurance that the price of our common stock that will prevail in the market in the future will ever exceed the price that you paid.

***Our business depends on a limited number of key personnel, the loss of whom could negatively affect us.***

Robert Faber, Chief Executive Officer, President and acting-Chief Financial Officer, and John Cook, Chairman of the Board, are important to our success. If either of them become unable or unwilling to continue in their present positions, our business and financial results could be materially negatively affected.

If we fail to adequately manage our growth, we may not be successful in growing our business and becoming profitable.

We plan to expand our business and the number of employees over the next 12 months. In particular, we intend to hire additional administrative personnel. Our inability to hire and retain additional qualified employees could have a negative impact on our chances of success.

***The issuance of securities by us may not have complied with or violated federal and state securities laws and, as a result, the holders of these securities may have rescission rights.***

Securities issued by us may not have complied with applicable federal and state securities laws, the result of which is that the holders of these securities may have rescission rights that could require us to reacquire the securities.

***Outstanding convertible securities and warrants may result in substantial dilution.***

At March 31, 2005, we had outstanding 234,567,757 shares of common stock. In addition, we had outstanding convertible notes and various common stock purchase warrants. At March 31, 2005, these notes and warrants were convertible into or exercisable for a total of approximately 176,000 additional shares of our common stock, subject to further anti-dilution provisions.

***Our stock is a penny stock and trading of our stock may be restricted by the SEC's penny stock regulations, which may limit a stockholder's ability to buy and sell our stock.***

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15g-9 under the Securities Exchange Act of 1934, as amended, which generally defines "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers that sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock. NASD sales practice requirements may also limit a

stockbroker's ability to buy or sell our stock.

In addition to the "penny stock" rules promulgated by the Securities and Exchange Commission, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretation of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy or sell our stock and have an adverse effect on the market for our shares.

### ***Restatement of Financial Statements***

Upon review of the standards for reporting mineral reserves as defined by SEC Industry Guide 7 (“Guide 7”), we have concluded that we did not have sufficient information to establish the existence of reserves as of December 31, 2004 and that certain costs that we had incurred in the development of our mining facility must be expensed as exploration or “test mining” costs. We have restated our 2004 financial statements to classify all costs previously capitalized (the recovery of which is dependent upon the economical extraction of gold from the mineralized material we are currently processing), as test mining expenses. These costs, which total approximately \$4.5 million net of accumulated depreciation, include our asset retirement obligation asset of \$453,786. In connection with our restatement of our mineral property assets, we have also reversed depletion taken on our mineral properties totaling \$43,256.

We have also restated our shareholders’ equity. On December 20, 2004, we received notice from holders of approximately \$3.8 million of convertible notes of their intention to convert into shares of our common stock. In connection with the notice we reduced convertible notes payable by \$3.8 million and recorded an additional 33,817,594 shares (converted at approximately \$0.11 per share) at December 31, 2004. Upon further consideration, we have determined that since the shares had not been physically issued prior to year end, the liability and stockholders’ equity accounts should not be adjusted until the shares had been issued. Accordingly, we restated our convertible note and stock holder equity accounts by approximately \$3.8 million. The restatement has no affect on net loss or cash flows as previously reported.

### ***Recent Financing Events and Restructuring***

On July 15, 2005, we completed a financing transaction, which provided us with \$800,000 in funding. In consideration for the financing, the Company has issued promissory notes with a face value of \$1.2 million, reflecting an original issue discount of thirty-three and one-third (33.3%) percent. The term of the notes is two years, with an optional extension of one year at the option of the investor. The annual interest rate on the notes is 15% of the face value and is payable monthly. The funds will be used for working capital and general corporate purposes.

In October 2005, we reached an agreement with the holders of the above-referenced \$1.2 million in promissory notes. The holders agreed to accept shares of our restricted common stock as full payment for the outstanding secured notes. Accrued interest on the notes through September 30, 2005 totals \$49,964.36. In consideration for the retirement of the debt, the Company has agreed to issue restricted shares to the note holders valued at a 50% discount to market. Market price will be determined by the average of the five lowest closing bid prices of GoldSpring’s common stock for the 20 trading days preceding the effective date of the transaction. The completion of this transaction is contingent on our ability to obtain a waiver from the subscribers to our November 2004 Subscription Agreement. We are currently seeking to obtain this waiver.

On September 28, 2005, we completed a second financing transaction under the same terms and conditions as the July 2005 financing. The September 2005 financing provided us with \$200,000 in funding. The funds will be used for working capital and general corporate purposes.

In 2004, we offered securities in a private placement transaction completed during March 2004 (the “March Offering”). In connection with the offering, we received gross proceeds of \$10 million from a group of accredited institutional and individual investors. Subsequent to the offering’s close, we failed to meet certain requirements of the offering regarding filing an effective registration statement with the Securities and Exchange Commission. Under the terms of the March 2004 subscription agreement, failure to have an effective registration statement by the required date resulted in liquidated damages in the amount of 2% of the principal investment amount (i.e., \$200,000) for each 30-day period until the registration statement was declared effective. We accrued approximately \$1.1 million in liquidated damages through November 30, 2004 associated with our failure to cause our registration statement to be effective.





The delay in effectiveness of our registration statement combined with the allegations raised in the lawsuit we filed against our former Chief Executive Officer in November 2004 (see Legal Proceedings) caused concern among the investors in the March 2004 Offering. We worked with the investors to address their concerns in a manner that would not force us to pay a large cash penalty or face a lawsuit, both of which would be detrimental to our shareholders. In consideration for restructuring the original transaction, the investors agreed to grant us a release for any misrepresentations that may have been made, allowed us to capitalize the accrued liquidated damages, and provided us with an additional 90 days to cause the registration statement to become effective, thereby avoiding potential liquidated damages of \$600,000 if the registration statement were to be filed before December 30, 2004.

As a result, and effective November 30, 2004, we restructured the March 2004 private placement transaction. In connection with the restructuring, we exchanged the 21,739,129 shares of common stock and the 21,739,129 warrants to purchase shares of common stock issued to the investors in the March Offering for 8% convertible notes in the aggregate principal amount of approximately \$11.1 million and four-year warrants to purchase 27,750,000 shares of common stock at an exercise price of \$0.20 per share, subject to anti-dilution adjustments. The principal amount of the convertible notes consists of the original \$10.0 million investment plus approximately \$1.1 million of accrued penalties associated with the delay in effectiveness of our registration statement covering the resale of the shares of common stock held by the investors.

During the third quarter of 2005, holders of the convertible notes converted a total of \$1,171,629 in principal and interest into shares of common stock at an average price per share of \$0.0332. 2005 year to date conversions totaled \$1,871,820 in principal and interest at an average price per share of \$0.0367.

On or about December 9, 2004, Mr. Parent and fellow directors Jerrie W. Gasch and Purnendu K. Rana Medhi purportedly seized control of our company. They attempted to remove the remaining seven members of our board and announced their intention not to honor the restructured subscription agreement of November 30, 2004, which both Mr. Medhi and Mr. Gasch had approved. On December 21, 2004, Mr. Parent caused our pending registration statement to be withdrawn from SEC consideration, resulting in further delays to the registration process and additional liquidated damages. Mr. Parent remained in control of our corporate office until February 16, 2005 (See - "Legal Proceedings"). During his period of purported control of our company, Mr. Parent refused to honor our obligations under either the March 2004 subscription agreement or the restructured November 2004 subscription agreement.

The restructured subscription agreement permitted the convertible note holders to convert their notes into common stock at a discounted conversion rate if they delivered their notices of conversion within 20 trading days of the November 30, 2004 restructuring closing date. On December 20, 2004, we received notice from holders of approximately \$3.8 million of convertible notes payable of their intention to convert into shares of our common stock. As a result, we recorded the issuance of 33,817,594 shares on December 20, 2004. We were required to deliver certificates representing unrestricted stock which was issued in a registered transaction within three business days of our receipt of the notices of conversion. As discussed above, our former Chief Executive Officer did not deliver the stock certificates within the required period, resulting in material financial damages to our company.

Under the terms of the November 2004 subscription agreement, convertible note holders have the right to a mandatory redemption payment in the event we are prohibited or otherwise fail to deliver shares of our common stock to converting note holders. The mandatory redemption payment is calculated as an amount equal to the product of the number of shares of common stock otherwise deliverable upon conversion of the note's principal and interest multiplied by the highest price of our common stock for the period beginning with the Deemed Conversion Date (the date the holder elects to convert the note) and ending with the payment date. On March 7, 2005, we received a mandatory redemption payment demand relating to our failure to deliver stock certificates representing 29,573,803 shares of our common stock. Under the mandatory redemption payment provisions of the November 2004 subscription agreement, we repurchased the 29,573,803 shares of common stock at \$0.23 per share, or \$6,801,975. We issued a convertible note in the aggregate amount of \$6,885,184 for the 29,573,803 shares and accrued interest.



On December 20, 2004, we received notice from holders of approximately \$500,000 of convertible notes payable of their intention to convert into shares of our common stock. As a result, we recorded the issuance of 4,243,791 shares on December 20, 2004. We were required to deliver certificates representing unrestricted, stock which was issued in a registered transaction within three business days of our receipt of the notices of conversion (the "Delivery Date"). The failure to deliver the shares by the Delivery Date resulted in liquidated damages of 1% of the Note principal amount being converted per business day after the Delivery Date. Our former Chief Executive Officer did not deliver the stock certificates within the required period. On March 18, 2005 we delivered the certificates representing the shares of common stock to these converting note holders. The 84 -day delay in delivering the shares resulted in liquidated damages of \$403,175. We recognized these damages during the fourth quarter of 2004 and the first quarter of 2005. We issued convertible notes for the amount of liquidated damages due.

Our November 2004 subscription agreement required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. As discussed above, our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement during the period of his purported control of our company. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Pursuant to the terms of the Subscription Agreement, the damages may be paid in cash or in unrestricted common stock. If paid in stock, we are required to pay 200% of the cash penalty. Because we did not have the cash or stock which was issued in a registered transaction to pay the liquidated damages, we reached a settlement agreement with the investors to pay the liquidated damages in restricted common stock valued at \$0.03 per share. The total liquidated damages accrued between December 30, 2004 and April 27, 2005 was approximately \$ 1,776,000. Pursuant to this settlement agreement, we issued approximately 59 million shares of restricted common stock in April 2005. Our registration statement became effective on October 3, 2005, which caused these liquidated damages to cease accruing.

During the first half of 2005, we incurred approximately \$2.8 million of liquidated damages and other expenses related to our obligations under the March 2004 and November 2004 subscription agreements. The damages were compounded by the former Chief Executive Officer's decision to withdraw the SEC registration statement and his failure to deliver common shares pursuant to the November 2004 restructuring agreement. We filed the SB-2 registration statement in April of 2005 and have delivered the shares. Our registration statement became effective on October 3, 2005. Until the registration statement was declared effective, we continued to incur liquidated damages under the November 30, 2004 Subscription Agreement (See "Recent Financing Events and Restructuring" above for additional information). Pursuant to the terms of the Subscription Agreement, the damages may be paid in cash or in unrestricted stock. If paid in stock, we are required to pay 200% of the cash penalty. Because we did not have the cash or stock which was issued in a registered transaction to pay the liquidated damages, we reached a settlement agreement with the investors to pay the liquidated damages in restricted common stock valued at \$0.03 per share. The total liquidated damages accrued between April 28, 2005 and July 26, 2005, was approximately \$ 1.2 million. Pursuant to this settlement agreement, we issued approximately 40 million shares of restricted common stock in the third quarter of 2005.

#### **Off-Balance Sheet Arrangements.**

We were not a party to any off-balance sheet arrangements during the period covered by this report.

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

Based on the most recent evaluation, which was completed as of the end of the period covered by this Form 10-QSB, we believe our company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e) are effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as

appropriate, to allow timely decisions regarding required disclosure. Our executive officers have also concluded that our disclosure controls and procedures are also effective to give reasonable assurance that the information required to be disclosed in our filings is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

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We have identified conditions as of September 30, 2005 that we believe are significant deficiencies in internal controls that include: 1) a lack of segregation of duties in accounting and financial reporting activities; and 2) the lack of a sufficient number of qualified accounting personnel. We have taken corrective measures to remedy these deficiencies. These measures include our consolidation of the corporate office with the office at the Plum Mine operation. This consolidation has provided the corporate office with additional accounting personnel. We believe that the presence of additional qualified accounting personnel will allow us to effectively correct the lack of segregation of duties in accounting and financial reporting activities.

Our former Chief Financial Officer became our Chief Executive Officer in September 2004. Our Company has not hired another individual to act as Chief Financial Officer. We believe the absence of a full-time Chief Financial Officer or Chief Accounting Officer has resulted in a significant deficiency with respect to the lack of qualified accounting personnel. We have been able to mitigate this deficiency by engaging outside consultants to assist the Company in its accounting activities, but believe that the only effective long-term solution to our accounting needs is to hire a qualified CFO. Due to our budgetary constraints and the small size of our company we are uncertain as to when we will be able to accomplish this.

We are in the process of taking additional corrective measures to remedy the deficiencies in future periods.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

#### *The State Court Case*

On November 9, 2004, we filed a lawsuit in Maricopa County (Arizona) Superior Court against Defendants Stephen B. Parent, Ron Haswell, Walter Doyle, Seth Shaw, Antonio Treminio, together with their spouses, and Ecovery, Inc., a Nevada corporation, or Ecovery.

The 12-count complaint alleges claims for violations of Arizona's racketeering act, state-law securities fraud (primary and secondary liability), common-law fraud, negligent misrepresentation, breach of fiduciary duty, negligence/gross negligence, breach of contract, unjust enrichment/restitution, theft/conversion, conspiracy liability, and injunctive relief. In essence, the complaint alleges that Stephen Parent misrepresented the value of certain placer mining claims that his company, Ecovery, sold to us in 2003 in exchange for approximately 99,000,000 shares of our stock; that Ecovery no longer had good title to the mining claims when they were sold to us; that Mr. Parent and the other named Defendants conspired to defraud us out of approximately 24,000,000 shares of our stock; and that Mr. Parent misappropriated more than \$300,000 in company funds.

On November 29, 2004, we moved for a temporary restraining order, or TRO, prohibiting Mr. Parent and his spouse from selling, transferring, assigning, or otherwise disposing of up to approximately 123,000,000 shares of our stock in their possession. After a hearing, at which the Parents appeared through counsel, the Honorable Anna M. Baca granted the motion, conditioned on the posting of an \$8 million bond. We did not post the bond, and the TRO was subsequently dissolved.

On or about December 9, 2004, Mr. Parent and fellow GoldSpring directors Jerrie W. Gasch and Purnendu K. Rana Medhi purportedly seized control of our company. Afterward, the Parent-led GoldSpring purported to fire Greenberg Traurig, LLP, or GT, as counsel for our company in this litigation and to hire Ronan & Firestone, PLC, or Ronan, as substitute counsel. Thereafter, on December 22, 2004, Ronan filed a stipulation to dismiss the lawsuit, purportedly on behalf of our company. Also on December 22, 2004, the Parents filed their answer, in which they generally denied the allegations of the complaint.



On December 29, 2004, GT filed a motion on behalf of our company to strike the stipulation to dismiss that Ronan had filed. Judge Baca heard oral argument on the motion on February 2, 2005 and took the matter under advisement. Further oral argument was heard on March 22, 2005. In light of the preliminary injunction that was issued in a related shareholder action in federal district court (discussed below), and the resolutions passed by our Board of Directors on February 22, 2005, Judge Baca granted the motion in an Order dated March 22, 2005 and struck Ronan's purported stipulation to dismiss.

In the same ruling, Judge Baca said that "there are serious conflicts in the continued representation of the Parents in this lawsuit by Gust Rosenfeld." The Court was referring to the fact that Parent had hired Gust Rosenfeld as our counsel after purportedly taking over our company on December 9, 2004. The Court therefore ordered further briefing on whether Gust Rosenfeld should be disqualified as the Parents' counsel. Shortly thereafter, on March 28, 2005, Gust Rosenfeld voluntarily withdrew as the Parents' counsel. The Parents have since retained new counsel. The discovery process is currently ongoing.

Mr. Treminio has since been dismissed from the suit in accordance with the terms of a prior settlement agreement between Mr. Treminio and GoldSpring, Inc. Mr. Shaw filed an answer, *in pro per*, on April 6, 2005, and generally denied the allegations of the complaint. Mr. Haswell and Mr. Doyle have filed answers and generally denied the allegations of the complaint. Ecovery, Inc. has not yet responded to the complaint.

### ***The Federal Court Case***

#### ***Background***

Stephen B. Parent and several others purporting to represent a majority of the shareholders of our company adopted Consent Resolutions in Lieu of a Special Meeting of Shareholder's dated December 9, 2004, and Mr. Parent, Jerrie W. Gasch, and Purnendu K. Rana Medhi, each of whom served as a director of our company until Mr. Medhi's resignation in April 2005, adopted Directors' Consent Resolutions (together the "December Consent Resolutions") dated December 10, 2004. Taken together, the December Consent Resolutions, by their purported terms, removed John F. Cook, Robert T. Faber, Leslie L. Cahan, Todd S. Brown, Christopher L. Aguilar, Stanley A. Hirschman, and Phil E. Pearce as directors, rescinded the restructuring of a \$10 million financing transaction entered into in March 2004, removed Mr. Faber as President of our company, named Mr. Parent as President of our company and his wife as Secretary of our company, designated Mr. Parent as the sole signing officer of our company's bank accounts, and terminated our company's legal counsel.

On December 22, 2004, Robert T. Faber and Leslie L. Cahan (collectively, the "Plaintiffs"), who are shareholders and directors of our company, filed a lawsuit in the United States District Court for the District of Arizona, entitled Robert T. Faber, et al. v. Stephen B. Parent, et al., No. CV04-2960-PHX-EHC ("the Litigation"). The Plaintiffs asserted claims in both their individual capacities and derivatively, on behalf of our company, against directors Stephen B. Parent, Jerrie W. Gasch, and Purnendu K. Rana Medhi (collectively, the "Defendants"), alleging that, by adopting the Consent Resolutions, the Defendants had unlawfully orchestrated an illegal coup to wrest control of our company from its current officers and directors. As discussed below, Messrs. Gasch and Medhi no longer support the Parent-led board.

#### ***The Temporary Restraining Order***

Following a hearing on December 22, 2004, at which the Court heard evidence and argument of counsel, the Honorable Earl H. Carroll issued a December 23, 2004 Order Granting Plaintiffs' Motion for Temporary Restraining Order, or TRO. The TRO precluded Defendants and their agents from (1) making any withdrawals from any bank accounts of our company, other than reasonable withdrawals necessary to the daily operations of the business; (2) rescinding or interfering in any way with any transactions approved by our company's Board of Directors prior to December 9, 2004; (3) entering into any contracts or agreements with third parties on behalf of our company or

disposing of or transferring any property or assets of our company; and (4) issuing or otherwise transferring any stock or debentures.

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The Court subsequently continued the TRO through February 15, 2005 and confirmed that none of the Defendants were to receive any payments from our company during the pendency of the TRO. Despite the Court's Order, the Defendants have since produced business records of our company demonstrating that, after adopting the December Consent Resolutions, the Defendants arranged for our company to pay them a collective total of \$38,721, including \$20,869 in payments to Stephen Parent.

*The Preliminary Injunction and Notice of Appeal*

Following additional hearings in which the Court heard witness testimony and evidence, the Court issued an Order on February 15, 2005 granting Plaintiffs' Motion for a Preliminary Injunction. The Preliminary Injunction ordered the reinstatement of our company's Board of Directors as it existed prior to December 10, 2004. As a result of the Court's Order, John F. Cook, Robert T. Faber, Christopher L. Aguilar, Todd S. Brown, Leslie L. Cahan, Stanley A. Hirschman, and Phil E. Pearce have been reinstated as directors. Stephen B. Parent, Jerrie W. Gasch, and Purnendu K. Rana Medhi remained directors until Mr. Medhi's resignation in April 2005. The Court's February 15 Order also stayed the implementation of the Consent Resolutions, and directed us to hold a special shareholders meeting within 30 days.

In concluding that the Preliminary Injunction should issue, the Court stated, "The Court is specifically concerned about the irreparable injury that would occur to GoldSpring and its shareholders and investors if Defendants [Mr. Parent, his wife, Jerrie W. Gasch, and Purnendu K. Rana Medhi] are permitted to manage the corporation. There is substantial evidence of Parent's wrongdoing in his former position as CEO of GoldSpring, such as his misappropriation of corporate assets for his personal use. The Defendants' attempt to rescind the [financing] transaction that was approved at the Board of Directors meeting on November 30, 2004 could adversely impact GoldSpring's ability to meet its obligations under the agreement. Rescission of the refinancing transaction would prove detrimental for GoldSpring because the corporation would be forced to pay the \$200,000.00 monthly penalty for failing to file the S-1 Registration with the SEC within ninety (90) days of the March 22, 2004 agreement between GoldSpring and [various investors]. This penalty had accrued to over \$1,000,000.00 as of November 30, 2004."

Thereafter, the Defendants filed a motion for reconsideration in which they asked that the Preliminary Injunction be dissolved or, alternatively, that the Court clarify the injunction order and require the Plaintiffs to post a bond. On February 25, 2005, the Court held a hearing on the Defendants' motion for reconsideration. The Court denied the Defendants' requests to dissolve the Preliminary Injunction and to require the posting of a bond. In response to Defendants' request for clarification of the injunction order, the Court ordered that our company is not to issue additional shares prior to the special shareholders meeting, and that the record date for the special shareholders meeting shall be December 9, 2004.

Our company believed that this ruling would disenfranchise the investors that participated in the November 30, 2004 restructuring transaction by preventing them from receiving and voting the shares they are entitled to receive through the conversion of their notes. A December 9, 2004 record date would also have disenfranchised all shareholders that acquired their stock on the open market after December 9, 2004.

Therefore, on February 28, 2005, our company filed a legal memorandum with the Court addressing these issues. In it, we pointed out that applicable federal securities laws require us to provide shareholders with current financial statements, which will not be available until March 31, 2005, and that Florida law and our company's bylaws require that a record date be fixed in advance rather than in the past. On March 14, 2005, the Court held a hearing on these issues. After hearing argument of counsel, the Court indicated that it agreed with our position.

Accordingly, on March 17, 2005, the Court vacated its earlier Order directing us to hold a special shareholders meeting and setting December 9, 2004 as the record date for purposes of that meeting. The Court also vacated the provision of its February 25 Order prohibiting us from issuing additional shares. Finally, the Court reaffirmed its earlier Order reinstating our Board of Directors as it existed prior to December 10, 2004. In doing so, the Court

ordered that the reinstated board shall remain in place until the Court orders otherwise.

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On April 13, 2005, a notice of appeal was filed on behalf of defendants (the Parents, the Gaschs, and the Medhis) seeking to reverse the Court's March 17 Order. On April 21, 2005, the Gaschs moved to dismiss their appeal. On June 10, 2005, the defendants (the Parents) filed their opening appellate brief. The plaintiffs filed their response brief on August 16, 2005. The defendants' response brief was filed on October 3, 2005. The 9th Circuit Court of Appeals has placed the matter on its docket for the week of January 9-13, 2006.

*The Investors' Motion to Intervene*

On March 2, 2005, Longview Fund LP, Longview Equity Fund, Longview International Equity Fund, and Alpha Capital AG (collectively, the "Investors") moved to intervene in the Litigation. In doing so, the Investors sought to dissolve the portion of the Court's February 25, 2005 Order that prohibited our company from issuing stock to them under the refinancing transaction.

In their motion to intervene, the Investors alleged that they are holders of more than \$3 million of Convertible Notes issued by us, which they received pursuant to the transaction in March 2004. The Investors further alleged that, under the terms of the Convertible Notes, they are entitled to convert the notes, in whole or in part, into our stock at any time. The Investors contended that, by preventing us from issuing stock, the Court's February 25 Order is a de facto preliminary injunction in favor of the Defendants, and effectively deprived the Investors of much of the benefits to which they are contractually entitled. Because the Defendants had not met the requirements for injunctive relief, the Investors argued, that portion of the Court's Order should be dissolved. Alternatively, the Investors asked the Court to order the Defendants to post a \$3.5 million bond to protect the Investors against any damages stemming from the de facto injunction.

On March 7, 2005, the Defendants filed their response to the Investors' motion. They contended that Judge Carroll's February 25 Order was not an injunction and, in any event, that the Investors had failed to meet the requirements for intervention. Accordingly, they argued that the motion should be denied.

On March 18, 2005, the Court issued an Order denying the Investors' motion as moot. The Court reasoned that, since its March 17 Order lifted the prohibition on the issuance of additional shares of our stock, the Investors had, in essence, already received the relief they requested in their motion to intervene. Therefore, the issues raised in that motion had become moot.

*The Company's Motion Re: the Gust Rosenfeld Retainer*

After purportedly seizing control of our company on December 9, 2004, Stephen Parent, acting as the putative president of GoldSpring, authorized the payment of a \$250,000 retainer to the law firm of Gust Rosenfeld using funds of our company. On March 1, 2005, we filed a motion for an order requiring Gust Rosenfeld to provide a detailed accounting of its use of these funds and to refund the unused portion.

On March 14, 2005, Gust Rosenfeld sent us a refund check for \$83,903.38 and a "ledger" showing how the firm spent the other \$166,096.62. Among other things, the ledger revealed that Gust Rosenfeld withdrew approximately \$109,000 as payment for its attorneys' fees and costs. The ledger also showed payments to other lawyers and outside vendors totaling approximately \$57,000. Included in this amount were two "refund" payments to Stephen Parent totaling \$21,000.

We have filed a reply brief asking the Court to order Gust Rosenfeld to provide a more detailed accounting of its expenditures, including billing invoices for legal services it purportedly rendered to our company. We have also asked the Court to require Gust Rosenfeld to provide a written explanation for the payments to other lawyers and outside vendors, as well as the so-called refund payments to Parent.



*The “New” Consent Resolutions*

On March 21, 2005, Defendants Stephen and Judith Parent filed a “Motion for Order” asking the Court to remove certain directors of our company’s Board of Directors. Attached to the motion was a “Consent in Lieu of a Special Meeting of the Shareholders of GoldSpring, Inc.,” dated March 18, 2005 (the “March Consent”). The March Consent was nearly identical to the one adopted by the Parents and others on December 9, 2004. It purported to remove directors Robert T. Faber, John F. Cook, Leslie L. Cahan, Todd S. Brown, Christopher L. Aguilar, Stanley A. Hirschman, and Phillip E. Pierce as directors of our company. The March Consent was signed by shareholders Stephen Parent; Judith Parent; Aztech Environmental Industries, Inc.; Jasmine House, LLC; Frontline 2001, LLC; Jubilee Investment Trust PLC; Ronald M. Haswell; Mark and Jennifer Ward; Walter T. Plummer; Lynn Zollinger; Maia Ray; and Rita Hardy.

On March 25, 2005, our company and the Plaintiffs filed a joint response to the Parents’ Motion for Order. In it, we argued that (1) the shareholders who signed the March Consent did not hold a majority of our company’s stock, which rendered the Consent ineffective; (2) the Parents solicited more than ten shareholders, and therefore violated Securities and Exchange Commission Rule 14a; and (3) the Parents cannot obtain the relief they seek because they have not asserted an affirmative claim in court.

The Parents filed a reply and supplemental reply on March 20, 2005, and April 11, 2005, respectively. In the reply, the Parents argued that the shareholders who signed the Consent do, in fact, hold a majority of the outstanding shares as of the date it was executed, and that any shares issued after that date are not to be counted. They also denied having solicited more than ten persons and denied any obligation to state an affirmative claim before seeking the relief asked for in their motion. In their supplemental reply, the Parents referred to our company’s recent Form 8-K filing (the “8-K”) with the Securities and Exchange Commission. In the 8-K, we disclosed that our company had issued (1) 59,203,918 shares of restricted common stock in connection with the Settlement Agreement Regarding Failure to File a Registration Statement; (2) six secured convertible notes in an aggregate amount of \$6,584,005 in connection with the Settlement Agreement Regarding Mandatory Redemption Payment; and (3) convertible notes in the amount of \$403,175 in connection with the Settlement Agreement Regarding Failure to deliver shares due upon conversion. The Parents contended that the transactions referred to in the 8-K constituted an unfair dilution of the “non-Merriman shareholders” stock holdings.

On April 20, 2005, we filed a Supplemental Notice to inform the Court that Messrs. Gasch and Medhi do not support the March Consent. In addition, we informed the Court that Mr. Gasch had signed a Declaration that (1) Mr. Gasch never agreed to serve on the proposed board of directors contemplated by the March Consent, (2) that Mr. Gasch does not support the March Consent and, if the March Consent constituted a valid shareholder resolution (which we do not believe) Mr. Gasch would immediately vote to reinstate the entire Board of Directors as it currently exists, (3) Mr. Gasch denounces and rescinds the purported Director’s Consent Resolutions dated December 10, 2004 and no longer supports any of the resolutions or purported corporate actions contemplated in that purported consent, and (4) Mr. Gasch has terminated Gust Rosenfeld as his counsel because he no longer wishes to be associated with or share joint representation with Mr. Parent. Mr. Medhi also informed us that he resigned as a director of our Board of Directors as currently constituted and as a member of the board of directors designated by earlier consent resolution. We informed the Court that these developments constitute additional reasons to deny the Parents’ motion.

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

The Non-Registration Events Provisions in our November 2004 Subscription Agreement (“Non-Registration Provisions”), required us to file and cause to become effective a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to be incurred at a rate of percent (2%) of the principal amount of

the Debenture for each thirty day period or part thereof for not having an effective Registration Statement. The liquidated damages ceased accruing when our registration statement became effective on October 3, 2005.

Pursuant to the terms of the Subscription Agreement, the damages may be paid in cash or in unrestricted stock. If paid in stock, we are required to pay 200% of the cash penalty. Because we did not have the cash or stock which was issued in a registered transaction to pay the liquidated damages, we reached a settlement agreement with the investors to pay the liquidated damages in restricted common stock valued at \$0.03 per share. The total liquidated damages accrued between April 28, 2005 and July 26, 2005, was approximately \$ 1.2 million. Pursuant to this settlement agreement, we issued 40,261,601 shares of restricted common stock in the third quarter of 2005. The Company issued the shares of restricted common stock to the approximately 41 investors who had rights under the Non-Registration Provisions in reliance upon the exemption provided by Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering.

During the third quarter of 2005, we issued three million (3,000,000) shares of our common stock to the ten members of Comstock Gold, LLC as part of the consideration for our acquisition of the leases on the Justice, Keystone and Woodville mineral claims from Comstock Gold, LLC. We issued the shares of restricted common stock to the ten members in reliance upon the exemption provided by Section 4(2) of the Securities Act, as a transaction by an issuer not involving a public offering.

**Item 3. Defaults Upon Senior Securities**

In March 2005, we issued a secured convertible note in the aggregate amount of \$6,885,184 with a 12% interest rate for the 29,573,803 shares and accrued interest due under the mandatory redemption payment provisions of our November 2004 subscription agreement. Payments on this note were scheduled to begin on April 1, 2005. We are in default on this note, causing the interest rate to increase to the default rate of 18%.

Under the terms of our November 2004 subscription agreement, we issued 8% convertible notes in the aggregate principal amount of \$11.1 million to an investor group. Under the terms of the notes, our first principal and interest repayment was scheduled for April 1, 2005. We are in default on these notes. The default interest rate is 12%.

In connection with our acquisition of the Plum Mining Company, LLC, we issued a promissory note to the seller for \$1 million (the balance of the purchase price). At September 30, 2005, the outstanding balance on the Note was \$400,000. We are in default on this Note.

We are working with the above-referenced note holders to cure the defaults. The above referenced notes have a total value of approximately \$15,660,000. The total arrearage related to these notes was approximately \$3,794,000 as of September 30, 2005. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligations, there can be no assurance that such funding would be available.

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

No matters were submitted to a vote of security holders during the quarter ended September 30, 2005.

*Subsequent Events*

The 2005 Annual Meeting of Stockholders of GoldSpring, Inc. was held on October 26, 2005. At the meeting, the slate of directors nominated by management—consisting of Christopher L. Aguilar, Todd S. Brown, Stanley A. Hirschman, Bill Nance and Rex Outzen—was elected. Each director was elected to serve until the next annual meeting or until his successor is appointed, unless his office is earlier vacated in accordance with the By-laws of the Corporation.

The matters voted upon and passed at the meeting were: (1) the election of the above-listed directors; (2) the approval of the Company's 2005 Stock Option and Incentive Plan; (3) the approval of the proposal to authorize Serial Preferred Stock; (4) the approval of the authorization of additional common stock; and (5) the ratification of the Company's selection of Jewett, Schwartz & Associates as the Company's Independent Auditor.

The results of the voting on those matters are outlined in the following table:

(1) Election of directors:

|                        | <b>VOTES FOR</b> | <b>AGAINST</b> | <b>ABSTAIN</b> |
|------------------------|------------------|----------------|----------------|
| Christopher L. Aguilar | 192,612,585      | 45,957,250     | 53,831,289     |
| Todd S. Brown          | 192,584,865      | 45,957,250     | 53,859,009     |
| Stanley A. Hirschman   | 184,615,285      | 45,957,250     | 61,828,589     |
| Bill Nance             | 192,586,585      | 45,957,250     | 53,857,289     |
| Rex L. Outzen          | 192,876,365      | 45,957,250     | 53,567,509     |





|   | <b>VOTES FOR</b> | <b>AGAINST</b> | <b>ABSTAIN</b> |
|---|------------------|----------------|----------------|
| (2) The approval of the Company's 2005 Stock Option and Incentive Plan:   | 147,022,455      | 105,060,941    | 20,950         |
| (3) The approval of the proposal to authorize Serial Preferred Stock  | 145,058,501      | 105,995,765    | 1,050,080      |
| (4) The approval of the authorization of additional common stock  | 184,922,191      | 107,383,603    | 95,330         |
| (5) The ratification of the Company's selection of Jewett, Schwartz & Associates as the Company's Independent Auditor | 190,524,562      | 96,341,516     | 5,535,046      |

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits and Reports on Form 8-K**

(a) The following documents are filed as part of this Report:

(1) Financial statements filed as part of this Report:

- Consolidated Balance Sheet as of September 30, 2005 (Unaudited)
- Consolidated Statements of Operations for the three month periods ended September 30, 2005 and 2004 (Unaudited)
- Consolidated Statements of Operations for the nine month periods ended September 30, 2005 and 2004 (Unaudited)
- Consolidated Statements of Cash Flows for the periods ended September 30, 2005 and 2004 (Unaudited)
- Notes to Financial Statements

(2) Exhibits filed as part of this Report:

| Exhibit Number | Exhibit  |
|----------------|--|
| 10.15          | Loan Agreement dated as of July 15, 2005 by and among the Registrant and the subscriber parties thereto (1)  |
| 10.16          | Security Agreement dated as of July 15, 2005 by and among the Registrant and the subscriber parties to the Loan Agreement dated July 15, 2005 (1)              |
| 10.17          | Form of Promissory Note, dated as of July 15, 2005 issued by the Registrant to the subscribers to the Loan Agreement dated July 15, 2005 (1)                   |
| 10.18(a)       | Purchase Agreement for mineral property leases between Company and Comstock Gold, LLC dated August 31, 2005 - Keystone, Justice and Woodville claims           |
| 10.18(b)       | Promissory Note dated August 31, 2005 issued by Company to Comstock Gold, LLC in connection with Purchase Agreement between the parties dated August 31, 2005. |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended      |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended      |
| 32.1           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
|                | (1) Filed as an exhibit to Company's quarterly report on Form 10-QSB filed on August 15, 2005.   |

(b) Reports filed on Form 8-K during the quarter ended September 30, 2005:

- (1) A Report on Form 8-K was filed with the Securities and Exchange Commission on July 21, 2005 under Item 1.01 relating to our completion of a financing transaction which provided us with \$800,000 in funding.
- (2) A Report on Form 8-K was filed with the Securities and Exchange Commission on July 28, 2005 under Item 5.02 relating to the resignation of one of our directors, Leslie Cahan. Mr. Cahan expressed no disagreements with the Company in tendering his resignation.

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- (3) A Report on Form 8-K was filed with the Securities and Exchange Commission on August 3, 2005 under Item 8.01 relating to our issuance of a press release announcing the relocation of our corporate headquarters and providing an update on our operations.
- (4) A Report on Form 8-K was filed with the Securities and Exchange Commission on September 6, 2005 under Item 8.01 relating to our acquisition of the leases on three patented mineral claims in Storey County, Nevada.

**SIGNATURES**

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

Date: November 11,  
2005

GOLDSRING, INC.

(Registrant)

By: /s/ Robert T. Faber

Name: Robert T. Faber

Title: President and Chief Executive Officer

By: /s/ Robert T. Faber

Name: Robert T. Faber

Title: Chief Financial Officer