

GOLDSRING INC
Form 10KSB
April 15, 2005

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

OR

**o 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
(State or other jurisdiction of
incorporation or organization)

7389
(Primary Standard Industrial
Classification Code Number)

65-0955118
(I.R.S. Employer
Identification No.)

8585 E. Hartford Drive, Suite 400
Scottsdale, Arizona 85255
(480) 505-4040

(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-KSB or any amendment to this Form 10-KSB

State issuer's revenues for the most recent fiscal year: \$955,380

State the aggregate market value of the voting and non-voting common equity held by non-affiliates based on the average bid and asked price as of March 31, 2005: \$11,756,450

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:
234,567,757 shares of Common Stock, \$0.000666 Par Value, as of March 31, 2005.

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Statement Regarding Forward-Looking Statements

The statements contained in this report on Form 10-KSB 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 also 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.

PART I

Item 1. Description of Business

Overview

We are involved in the production of gold and other precious metals. Our objective is to achieve growth and profitability through exploration at our current operations and acquisitions of projects that we believe we can bring into production within a short period of time. We are in the early stages of our operations and currently are producing gold only at our Billy the Kid/Lucerne property.

The following table sets forth certain information regarding our current projects.

Name	Location	Type
Billie the Kid/Lucerne	Storey and Lyon County, Nevada	Gold and silver open pit operation
Como	Lyon County, Nevada	Gold and silver claims
Gold Canyon	Lyon County, Nevada	Placer gold claims
Spring Valley	Lyon County, Nevada	Placer gold claims
Big Mike	Pershing County, Nevada	Lode and Placer copper claims
Alberta	Alberta, Canada	Non-energy mineral rights, including iron

Our Billy the Kid/Lucerne and Como claims, which we call our Plum operations, are located between Carson City and Virginia City, Nevada, about 30 miles southeast of Reno in an area known as American Flat. The area is located within the Comstock Lode, a historic mining district in Nevada. Our Gold Canyon and Spring Valley projects are located in Lyon County, Nevada, and our Big Mike Copper project is located about two hours east of Reno in Winnemucca, Nevada.

Our Plum operations involve open pit gold and silver mining. We have not yet established any proven or probable reserves meeting the requirements of SEC Industry Guide 7. Therefore, all of our activities are considered test mining and exploratory in nature. We are in the process of conducting a third party evaluation of our mine plan for our Billie the Kid/Lucerne project and expect to release a reserve report in the second or third quarter of 2005. Test mining commenced in the first quarter of 2004. We have not as yet explored or developed our Como claims. We also have not completed any exploratory activities on our Gold Canyon, Spring Valley, or Big Mike properties.

We originally became a mineral company through an acquisition in March 2003. 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. 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.

Employees

We have four full-time employees at our executive office in Scottsdale, Arizona. At the Plum Mining project in Nevada, we have 15 employees, including our managers, administrative staff, engineers, geologists, lab technicians, and process operators. We use consultants with specific skills to assist with various aspects of our project evaluation, due diligence, and acquisition initiatives. We also use subcontractors in our test mining operations, which involves approximately 20 people, including a mining and screening foreman.

Principal Markets

We plan to sell our production on world markets at prices established by market forces. These prices are not within our control.

Government Regulation

Mining operations and exploration activities are subject to various national, state, and local laws and regulations in the United States, which govern prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, protection of the environment, mine safety, hazardous substances, and other matters. We have obtained or have pending applications for those licenses, permits, and other authorizations currently required to conduct our exploration and other programs. We believe that we are in compliance in all material respects with applicable mining, health, safety, and environmental statutes and regulations.

Reclamation

We are generally required to mitigate long-term environmental impacts by stabilizing, contouring, resloping, and revegetating various portions of a site after mining and mineral processing operations are completed. These reclamation efforts are conducted in accordance with detailed plans, which must be reviewed and approved by the appropriate regulatory agencies.

The Nevada Revised Statutes and regulations promulgated thereunder by the Nevada State Environmental Commission and the Nevada Division of Environmental Protection, Bureau of Mining and Reclamation require a surety bond to be posted for mining projects to assure we will leave the site safe, stable and capable of providing for a productive post-mining land use. Pursuant to the approved Reclamation Plan for Billie the Kid, we posted a surety bond in the amount of \$321,000, of which \$145,000 was in the form of a cash deposit and the balance was secured from a surety agent.

Competition

We compete with other mineral exploration and mining companies in connection with the acquisition of gold and other mineral properties. There may be competition for gold acquisition opportunities, some of which may involve other companies having substantially greater financial resources than we do.

Officers of our Company

Robert T. Faber, CPA* has served as President and Chief Executive Officer of our company since September 2004 and Chief Financial Officer since June 2003. Mr. Faber is an executive with 20 years of diverse senior financial and operational management, business and acquisition experience, including 10 years of international experience. Mr. Faber was named Chief Executive Officer and President of GoldSpring in September 2004. Prior to his appointment, he had served as Chief Financial Officer since June 2003. Mr. Faber served from 2002 until 2003 as Vice President of United Site Services, Inc., a privately held service consolidator in the waste service industry. Additionally, Mr. Faber served as an executive with Allied Waste Industries from 2001 until 2002, overseeing a \$1.2 billion multi-state area and served as Chief Financial Officer with Frontier Waste Services, LLC from 1999 until 2001. Prior to Frontier Waste, Mr. Faber spent 17 years with Waste Management, Inc., a publicly traded environmental services company, during which time he served in senior positions both internationally and domestically. Mr. Faber's positions included Director of Finance of Waste Management's \$1.4 billion multi-country International operations based in London, England and Vice President and Controller for several \$100 million plus multi-state market areas. (*Not licensed to practice)

Lisa S. Boksenbaum has been Secretary of our company since April 2005 and the General Counsel of our company since October 2003. Ms. Boksenbaum was a member of CBG Law Group, PLLC in Bellevue, Washington from December 1998 until September 2003.

Leslie Lawrence Cahan has served as a director of our company and as our Treasurer since March 2003. For over 30 years Mr. Cahan has been directly involved in all aspects of exploration and production of mining, and oil and gas assets. Since 1980, Mr. Cahan has served as President and Chief Executive Officer of Harlesk Nevada Inc., the former owner of the Gold Canyon and Spring Valley claims that were acquired by Ecovery, Inc. and ultimately sold to us in March 2003. As former owner of the Gold Canyon and Spring Valley mineral claims, Mr. Cahan managed exploration activities on the properties, including carrying out geophysical, drilling and trenching exploration activities. During this same time period, Mr. Cahan served as President and Chief Executive Officer of Harlesk Management Inc., acting as a resort developer as well as a consultant to luxury resort developers, providing concept, marketing, and

financial assistance. From 1999 to 2003, Mr. Cahan served as President and Chief Executive Officer of Corporate Communications Inc., a long distance service provider. Previously, Mr. Cahan owned and operated Western Land and Minerals Ltd., which specialized in gas and oil production. He was also a founding partner of Nanisivic, on Baffin Island, one of the world's largest zinc mines.

2004 Financing Events and Restructuring

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.

During the SEC review process of the registration statement we filed in connection with the March Offering, we learned that our founder and former Chief Executive Officer may have misrepresented the value of certain mineral properties that his company sold to us in a March 2003 transaction. Our discussions with the SEC led to our decision to restate our annual and quarterly SEC filings to reflect our reevaluation of the value of those mineral properties. This reevaluation led to an investigation into the activities of our founder. On November 9, 2004, we filed a lawsuit in Maricopa County (Arizona) Superior Court against Stephen B. Parent and four other defendants, together with their spouses, and Ecovery, Inc. (See Item 3 Legal Proceedings). 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.

The allegations made in our lawsuit raised questions about the representations that our founder made during the March Offering. The delay in effectiveness of our registration statement combined with the allegations raised in the lawsuit caused concern among the investors in the March 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.

As a result, and effective November 30, 2004, we restructured the 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 approximately 27,800,000 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. The restructured subscription agreement also 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 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. 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 Item 3 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.

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, free-trading stock 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.

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 multiplying 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 for \$6,854,005 relating to our failure to deliver stock certificates representing 29,573,803 shares of our common stock. We have reached a settlement agreement with this investor and have issued the investor secured convertible notes in the amount of \$6,845,000 in lieu of a cash payment of the mandatory redemption payment amount.

The owners of the additional 4,243,791 shares of common stock due to be delivered following the December 20, 2004 notices of conversion have not elected to demand payment pursuant to the mandatory redemption payment provisions of the subscription agreement, and on March 18, 2005, we delivered the certificates representing the shares of common stock to these converting note holders. Under the terms of the subscription agreement, we had three business days following receipt of the Notice of Conversion of Notes to deliver free-trading common stock certificates (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. We failed to deliver the shares for 84 days after the Delivery Date, resulting in the liquidated damages of \$403,175. In lieu of a cash payment of the liquidated damages, we have agreed to issue convertible notes for the amount of liquidated damages due. The convertible notes will have essentially the same terms and conditions as the Notes issued in the November 30, 2004 restructuring.

Our November of 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 actions 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 \$222,013 for each 30-day period after December 30, 2004 until our registration statement is declared effective. Through March 31, 2005, the accrued liquidated damages totaled \$888,052. The Subscription Agreement requires the liquidated damages to be paid in cash or free-trading stock. If paid in stock, we must issue stock in the amount of 200% of the cash payment amount. In lieu of the cash or free-trading stock, we have negotiated a settlement with the investors to issue restricted common stock in settlement of the liquidated damages. This settlement will result in the issuance of 59,203,918 shares of restricted common stock and gives us until April 30, 2005 to file a new registration statement. We are currently in the process of completing the new registration statement.

Risk Factors

An investment in our common stock involves risk. You should carefully consider the following risk factors, in addition to those discussed elsewhere in this report, in evaluating our company, its business, and prospects. The following risks could cause our business, financial condition, and operating results to be materially and adversely affected.

We have limited resources and our inability to obtain additional financing could negatively affect our growth and success.

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 may 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 sufficient 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.

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 the 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, 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, most of 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 countries and 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 us 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 after this offering will ever exceed the price that you pay.

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 shares and warrants 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 million 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 15c-9, 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.

Item 2. Description of Property

Plum (Billie the Kid/Lucerne)

Location, Access, and Title to the Property

We own the following mineral projects: Billie the Kid /Lucerne gold and silver project and the Como mineral Claims. The Billie the Kid/Lucerne project is located in Storey and Lyon Counties, Nevada. The Billie the Kid/Lucerne project is physically situated roughly three miles south of Virginia City, Nevada. Paved state highways from Reno, Carson City, and Virginia City provide access to the property. The Como mineral Claims are located in Lyon County, Nevada, approximately 15 miles east of Carson City, and have not been explored or developed by us.

Our property rights to the mineral properties consist of several mineral leases, unpatented mineral claims, and fee ownership of real property. We have a mineral exploration and mining lease agreement with Claire Obester and the Estate of Dorothy Obester dated January 1, 1997 covering mineral rights to five patented claims located in both Storey and Lyon Counties, including the Billie the Kid and Lucerne patented lode claims. The lease has a primary term of eight years, with an expiration date of January 1, 2005. The term may be extended for as long as exploration, development, mining, or processing operations are conducted on a continuous basis, without a lapse of activity for more than 180 days. We pay monthly lease payments of \$500 until the mineral claims are put into production. Once production of minerals begins, we must pay a royalty to the lessor equal to the greater of \$500 per month or a royalty percentage on the amount received by us on the sale of the mineral products less the costs incurred for marketing, distribution, processing and sales, commonly referred to as a Net Smelter Return. The royalty percentage varies based on the price of gold: 3% if gold is less than \$400 per ounce, 4% if gold is at least \$400 per ounce but less than \$500 per ounce, and 5% if gold is \$500 or greater per ounce. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

We have a second mineral exploration and mining lease agreement with the Donovan Silver Hills, LLC dated September 1, 1999 covering seven patented claims and 13 unpatented claims located in Storey and Lyon Counties. The lease has a primary term of ten years, with an expiration date of September 1, 2009. The term may be extended as long as exploration, development, mining or processing operations are conducted on a continuous basis, without a lapse of activity for more than 180 days. We must pay monthly lease payments of \$250 until the mineral claims are put into production. Once production of minerals begins, we must pay a royalty to the lessor amounting to the greater of \$500 per month or a royalty percentage of the Net Smelter Returns. The royalty percentage varies based on the price of gold: 3% if gold is less than \$400 per ounce, 4% if gold is at least \$400 per ounce but less than \$500 per ounce, and 5% if gold is \$500 or greater per ounce. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

In addition to the mineral leases, we hold 20 unpatented mineral claims in Storey County, hold eight unpatented mineral claims in Lyon County, and own title to 40 acres of land in Storey County. The W. Hughes Brockbank Living Trust has a lien against and a security interest in these unpatented mineral claims and the 40 acres of land pursuant to a Deed of Trust dated October 31, 2003, entered into with W. Hughes Brockbank Living Trust. The Deed of Trust was granted to secure a promissory note, dated October 31, 2003, in the amount of \$1 million for the balance of the purchase price for the property. The non-interest bearing promissory note requires ten quarterly payments of \$100,000 each. As of March 31, 2005, five payments have been made.

Present Condition of Property and Work Performed

We have not completed extensive characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, or economic analysis on the Plum mineral assets. We are in the process of having a third party evaluate our mine plan. We expect to release a reserve report for the Plum project in the second or third quarter of 2005.

Description of Equipment and other Infrastructure Facilities

We use 50 ton Caterpillar 773 haul trucks to haul the mineralized materials from the Billie the Kid/Lucerne open pit to the crushing and process facility located in the northeast corner of the property. The mineralized material is crushed, screened, and agglomerated in a self-contained portable crushing plant. The mineralized material is fed to an apron feeder by a front-end loader. The feeder provides a steady feed to a Pioneer jaw crusher. The crushed material is then conveyed to a Simplicity triple deck vibrating screen. The oversize material from the screen is filtered in closed circuit to a Symons 4-1/4-foot standard cone crusher where it is crushed and conveyed to the screen.

Prior to agglomeration, 10 pounds of Type II Portland Cement is added for every ton of mineralized material and metered on to the pugmill feed conveyor. All the two-inch material from the screen is conveyed to a Davis 1500 pugmill-agglomerator. We use a load-out hopper to drop a preselected amount of agglomerated material into the Caterpillar 773 haul trucks, which is then transported to and dumped on the leach pads. A chemical solution is then applied to the mineralized material on the leach pads. Pregnant solution is accumulated from the leach pad and is then pumped to the Merrill-Crowe recovery plant. The precipitate collected in the presses is collected, dried, and smelted on the property using an electric furnace to produce gold dore.

Our third-party contract mining company owns and provides the haul trucks, front end shovel, loaders, blade, dozer, hopper, crushers, screen, mobile crane, foot roller, water truck, conveyors, and generators. We own the Merrill-Crowe gold precipitation plant, the agglomerator, dozers, excavators, water truck, cement silo with a screw feeder, and conveyors. The Merrill-Crowe gold precipitation plant and the mineral processing equipment are less than a year old. Most of the other mining equipment we own that is located at the Billie the Kid/Lucerne facility is approximately 10 to 12 years old but is good condition. The total book value of our equipment associated with the Billie the Kid and the Lucerne facilities is approximately \$1,800,000.

Power Utilization at the Plum Property:

We completed the installation of the grid power line to the crushing/screening/agglomeration system, replacing a Caterpillar 3516 (1000 kilowatt) diesel generator. The change has reduced our crushing costs and directly attributed to expanding our permit for tons crushed.

Geology, Structure and Mineralization

Several large low angle brecciated structural zones (faults) dominate the geology of the Billie the Kid/Lucerne deposit. The thickness of these structural zones ranges from 20 to 30 feet. Gold mineralization within the Billie the Kid/Lucerne deposit is closely associated with dikes and sills that are composed of Alta Andesite, a dark-colored, fine-grained volcanic rock, but these rocks are rarely or weakly mineralized. Hartford Rhyolite, a fine-grained volcanic rock, hosts approximately 70% to 80% of the gold mineralization and the remaining 20% to 30% is associated with Alta Andesite.

Mineralized Material

We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. Therefore, all of our activities are considered test mining or exploratory in nature. As evidenced by the 213 reverse circulation drill holes drilled between 1990 and 1993, and aided by surface geological mapping, sampling, mine modeling and metallurgical testing, we believe the present Billie the Kid/Lucerne Pit contains estimated gold-bearing mineralized material of approximately 880,000 tons. After accounting for the approximately 100,000 tons of material excavated during the first six months of 2004, we believe the deposit contains approximately 780,000 tons of mineralized material. This 100,000 tons of material is presently distributed as follows: 54,000 tons under leach, 26,000 tons at the stockpile, and 22,000 tons used for over-liner at the leach pad. Adjacent to the Billie the Kid/Lucerne pit, we have an additional mineralized area named SR341 Resource, which we believe contains

approximately 580,000 tons of mineralized material.

It should also be noted that the above-stated tonnage of mineralized material does not reflect waste dilution during test mining or metal value losses in processing. We have established procedures to recalculate and update our mineral inventory annually, and we plan to do so in 2005. Our year-end mineral inventory calculations will incorporate test mining depletions and addition to inventory based on results of mine optimization and exploration work performed during 2004.

Future Exploration Potential

We are conducting an exploration program to test surface mineral targets as well as deep underground bonanza targets by using geological mapping, geochemical/geophysical investigations and drilling. The quantities of mineralized material identified as the SR341 Resource may be limited by its proximity to State Route 341. Under Nevada state laws, mining operations can relocate State Route 341. Historically, State Route 341 has been moved to permit mining in the area. To relocate State Route 341, we would need to get permission and bear the expense of its relocation.

Gold Canyon and Spring Valley (Placer Projects)

We own a 100% interest in the 25 federal unpatented placer claims located in Lyon County, Nevada that comprise the Gold Canyon and Spring Valley projects. The 25 unpatented placer claims cover approximately 850 acres and are located about 30 miles southeast of Reno and four miles south of Virginia City, Nevada. We have not completed any exploration activity on the Gold Canyon or Spring Valley properties. The properties are undeveloped and do not contain any open-pit or underground mines. We have not established any proven or probable reserves on the mineral claims. All of our activities associated with these properties are exploratory in nature. There is no mineral processing plant or equipment located on the properties. Currently, there is no power supply to the Gold Canyon and Spring Valley properties.

The Big Mike Copper Project

We own a 100% interest in the 17 unpatented lode claims and one placer claim covering a total of 310 acres in Pershing County, Nevada that comprise the Big Mike Copper Project. The Big Mike Copper Project is located approximately 32 miles south of Winnemucca in Pershing County, Nevada. Access to this site is available by way of Grass Valley Road, a county maintained paved and gravel road, for 30 miles and then two miles on a BLM gravel road. The property is situated at an elevation of 5,000 to 5,500 feet. 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 or undertaken any geologic, engineering or economic studies on the Big Mike Copper Project. We anticipate that the Big Mike Copper Project will be a low-cost copper recovery project with the copper oxide bearing material remaining from the previous leaching operation carried out by Ranchers Exploration and Development Corporation. The property includes an open pit, mineralized material in a stockpile, and waste dumps. As the site was previously mined, there are also roads and graded areas on the property. Two cased water wells with rights to two cubic feet per second are also present on the property.

On November 1, 2004, we announced the signing of a Memorandum of Understanding with MBMI Resources, Inc, of Vancouver, Canada, to form a 50-50 joint venture to bring the Big Mike Copper Project into operation. The current price of copper has enhanced the economic viability of this project and has prompted us to accelerate our efforts to place it into production. The objective of the joint venture is to establish commercial copper production using a vat leaching process. MBMI will be responsible for all costs associated with the development of the project, estimated to be in the range of \$1.25 million to \$1.50 million. The joint venture will provide us with the opportunity to participate in future production profits from the Big Mike project with no capital outlay. Completion of the transaction is subject to due diligence and regulatory approval. We expect to enter into a formal joint venture agreement in the second or third quarter of 2005.

Mineral Permits Acquired in Alberta, Canada

In May 2004, the Alberta government granted us mineral permits for all non-energy minerals on nearly 800 square miles of Alberta, Canada mining mineral property. Sedimentary Oolitic iron bearing material was discovered in 1953 from oil and gas drilling on the area of our mineral permits. We are in the process of reviewing existing data and conducting a pre-feasibility study on the project. This study will include new testwork to follow-up earlier testwork performed on the property. From 1995 through 1997, a series of tests were performed that showed the mineralized

material present was amenable to treatment to produce enriched iron. We are in the final stages of acquiring the coal rights on this property. We are also investigating the possible acquisition of the energy minerals, gas and oil on this 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.

Item 3. 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 (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 (GT) as counsel for our company in this litigation and to hire Ronan & Firestone, PLC (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 GoldSpring 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 GoldSpring's 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 not yet hired new counsel.

Aside from Stephen and Judith Parent, the only other defendants who have been served are Seth Shaw and Ron Haswell. Mr. Shaw filed an answer, *in pro per*, on April 6, 2005, and generally denied the allegations of the complaint. Mr. Haswell 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 Shareholders dated December 9, 2004, and Mr. Parent, Jerrie W. Gasch, and Purnendu K. Rana Medhi, each of whom currently is a director of our company, adopted Directors Consent Resolutions (together the Consent Resolutions) dated December 10, 2004. Taken together, the 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.

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.

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 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

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 remain directors. 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.

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 GoldSpring funds. 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.

A hearing on our motion is scheduled for April 27, 2005 before Judge Carroll.

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 Consent). The 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 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 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.

A hearing on the Parents' Motion for Order is scheduled for April 27, 2005 before Judge Carroll.

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

Not applicable.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

PRICE RANGE OF COMMON STOCK

Our common stock is currently traded on the OTC Bulletin Board under the symbol GSPG:OB . The following table sets forth the high and low bid prices for our common stock since we commenced trading on February 28, 2002.

Year	Quarter	High	Low
2003	First	1.05	0.06
2003	Second	0.16	0.01
2003	Third	0.49	0.05
2003	Fourth	0.84	0.27
2004	First	1.04	0.66
2004	Second	0.85	0.28
2004	Third	0.42	0.17
2004	Fourth	0.22	0.10

As of December 31, 2004, we had over 2,000 holders of our common stock. That does not include the number of beneficial holders whose stock is held in the name of broker-dealers or banks. At December 31, 2004, we had 204,938,076 shares of common stock outstanding. The above quotations reflect the inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

We have never paid dividends and do not expect to pay any dividends in the foreseeable future.

Item 6. 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 year ended December 31, 2004, as well as our future results.

Overview

We are a North American production-focused mining company whose objective is to achieve growth and profitability through enhancements at our active gold and silver-producing mine near Reno, Nevada and through the acquisition of additional mining projects in the Comstock Lode region that can be efficiently put into near-term operation and production.

We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. Therefore, all of our activities are considered test mining or exploratory in nature. We are currently undergoing a third-party review of our mine plan. We anticipate that a reserve report will be released during the second or third quarter of 2005.

We currently own mineral properties and conduct our primary mining operations in the Comstock Lode, located about 30 miles southeast of Reno, Nevada. This operation consists of the Plum Mining facility. We also own mineral permits in Alberta, Canada. We have no active operations in Canada.

The year 2004 presented our company with numerous challenges that impacted our performance in the form of financial and operational confusion as well as management distraction. A legal dispute over control of our company, a resulting series of disruptive management changes, their impact on operations and morale and the resulting need for a significant financial restructuring effectively slowed our progress toward both growth and profitability. In addition, the Comstock Lode region experienced record level snowfalls during the winter of 2004 and 2005. While the unusually heavy precipitation did not interfere with the overall recovery of mineralized material, it did reduce operating efficiency at the plant. Despite these numerous challenges, however, we delivered our first production from the Plum Mining facility during late third quarter 2004.

Results for 2004 were further impacted by liquidated damages that resulted from our inability to have an effective registration statement as required by our financing agreements. Compounding this issue were legal and related expenses incurred in a dispute over control of our company.

We currently believe that the bulk of the management control-related disruptions we experienced in 2004 and early 2005 have passed, and that we now can focus our efforts on achieving growth and positive cash flow in 2005. Our ability to maintain that focus will depend largely upon our relationships with a number of our investors that are now note holders as the result of our 2004 financial restructuring. This debt obligation is substantial, and we are committed to repayments that are schedule to occur in years 2005, 2006, and 2007.

Our negotiations with our note holders regarding the debt obligation have so far been successful. We remain optimistic that these negotiations will continue in a positive vein and that we will be able to reach a resolution with our note holders that yields an outcome beneficial to our company and all of its shareholders. Specifically, we have approached the note holders and requested a deferral of the repayment of both the principal and interest amounts that were originally scheduled to be paid in 2005. The note holders have been receptive to our approach and our talks are them are progressing. We are optimistic that these discussions will remain positive in tone and that we will soon have an agreement on deferral of the obligation. Of course there can be no assurances that this will be the result.

Our strategy calls for growth in two ways. First, we seek growth through the expansion of the existing ore base at our Plum mining facility. This process consists of actively conducting exploration to identify additional ore bodies. The successful location of new ore bodies on the existing property would allow us to expand the size and the lifespan of the Plum mining project, exclusive of new property acquisitions.

Second, we seek growth through the acquisition of mining projects, which are located within the general vicinity of the Comstock Lode area and which have proven in-ground reserves, advanced permitting, and solid exploration potential. While the Comstock Lode is the focus of our search for acquisition opportunities, we would consider acquisitions outside of the Comstock Lode if those opportunities were compelling. We do not compete with major mining companies. Rather, we seek to acquire small, proven projects from large mining companies whose business operations and business models make those projects economically inefficient for their ongoing investment.

We believe that there remain significant unexplored and unexploited mineral deposits in the Comstock Lode region. We plan to invest substantial resources in our existing Plum mining operation in search of unexploited deposits. We will also seek out acquisition opportunities in this same region. It is our belief that we possess a unique advantage with our status as likely the only heap leach gold mining permit holder in the area. This permit is relatively difficult to obtain, and it is one that we can expand to include new areas in the event we locate and wish to process new deposits.

Placer Claims, Water Rights, and Mineral Permits

We originally became a mineral company through an acquisition in March 2003. 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. 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.

Of the various placer claims, only the Big Mike Copper Project is budgeted for activity in the near future. In 2004, prior to the disruptive events referenced earlier, we had executed a Memorandum of Understanding for a joint venture arrangement to develop and operate the Big Mike Copper Project. The disruptive events of 2004 caused concern within the management of our joint venture

partner and as a result discussions ceased and the project was abandoned. Based upon our improving management stability, the joint venture partner has reactivated its interest in the original joint venture agreement.

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. Therefore, all of our activities are considered exploratory in nature. We have not completed any exploration activity on the project. We expect that it will be a low-cost copper oxide leaching operation to recover copper from the copper oxide bearing material remaining from the leaching operation carried out on the property by a prior owner. The property includes an open pit, mineralized material in a stockpile and waste dumps. We believe the property has exploration potential for primary and oxide copper. Although the project was delayed from its original schedule, we believe that the current price of copper continues to enhance the economic viability of this project, and are actively working to formalize the joint venture arrangement and to place the project into production.

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. Sedimentary Oolitic iron bearing material was discovered in 1953 from oil and gas drilling on the area of our mineral permits. We are in the process of reviewing existing data and conducting a pre-feasibility study on the project. The study will include new test work to follow-up earlier test work performed on the property. 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 are in the final stages of acquiring coal rights in this area and expect those rights to be secured within the first half of 2005. We are also investigating the possible acquisition of the rights to the energy minerals, gas, and oil on this 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.

Results of Operations and Operational Plan

We believe our 2004 operating results are reasonable given the early stage of development at our Plum Mine property, combined with the internal disruption issues discussed earlier and the extraordinary weather (precipitation) that occurred in 2004.

Our Plum Mine, which is located in the Comstock Lode region, went into production in late third quarter 2004. The Comstock Lode region experienced record level snowfalls at approximately the same time, continuing through the winter of 2004/2005. While the unusually heavy precipitation did not interfere with the overall recovery of ore, it did impact our ability to mine and crush the recovered ore.

During 2004, the Plum Mine produced 2,836 ounces of gold. We sold 2,314 ounces of this gold at an average price of \$413 per ounce generating nearly \$1 million in revenue. This resulting revenue was much smaller than the operating expenses we occurred in 2004. Those high operating expenses reflect the significant upfront effort and investment that was required to bring the operation into production. We believe that this high level of operating expense is typical for a mine in early stages of development, as is the Plum Mine.

In 2005, we plan to focus the bulk of our efforts on achieving operational improvements in both production and efficiency at our Plum Mine operation. We successfully completed our first full quarter of production in the fourth quarter of 2004, and we are now pursuing 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. 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.

Liquidity and Capital Resources

We recognize that our cash resources are severely limited. We have a substantial obligation to pay our note holders approximately \$15 million over the years 2005, 2006, and 2007, resulting from our 2004 financing (See 2004 Financing Events and Restructuring in Item 1). We do not currently have sufficient cash available to meet these obligations. We are currently negotiating with these note holders in an effort to delay repayment of both the principal and interest amounts, for a 12-month period commencing with the date of such agreement. Our negotiations with these note holders regarding the repayment delay have so far been successful and we remain optimistic that we will reach a resolution. However, in the event we are unable to reach a resolution on the repayment delay issue, we will be unable to meet the current note obligations and the future of our company will be in jeopardy. While failure to reach a

resolution would likely cause us to seek external funding in order to meet our obligation, it is possible that we would be unable to secure such funding.

We have yet to realize an operating profit at our Plum Mine location. Our current business plan, however, calls for the Plum Mine operations to become profitable and generate positive cash flow for the year 2005. We believe that we have adequate capital resources to execute our business plan at our Plum Mine.

We expect to expand our existing leach pads, which currently number three, to a total of either four or five leach pads during 2005. The cost of this expansion will be approximately \$600,000. That expenditure represents our only major capital expenditure currently planned for 2005.

Our strategy calls for growth through the acquisition of mining projects both inside and outside of the Comstock Lode area, which have proven in-ground reserves, advanced permitting, and solid exploration potential. While we plan to invest substantial resources in our existing Plum mining operation in search of unexploited deposits, we will also seek out acquisition opportunities. Should such opportunities arise which would be accretive to our business, we would seek to secure the necessary funding to support those acquisitions.

Item 7. Financial Statements

See index to Financial Statements and Financial Statements Schedules beginning on page F-1 of this Form 10-KSB.

Item 8. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 8A. Controls and Procedures

Based on the most recent evaluation, which was completed within 90 days of the filing of this Form 10-KSB, we believe our company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-14 and 15d-14) 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. We have identified conditions as of December 31, 2004 that might be considered material weaknesses 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 are in the process of taking corrective measures to remedy the deficiencies in future periods.

Item 8B. Other Information

Not applicable.

Item 9. Directors and Executive Officers of the Registrant

The information required by this Item relating to the directors of our company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 for our 2005 Annual Meeting of Stockholders.

Item 10. Executive Compensation

The information required by this Item relating to the directors of our company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 for our 2005 Annual Meeting of Stockholders.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item relating to the directors of our company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934 for our 2005 Annual Meeting of Stockholders.

Item 12. Certain Relationships and Related Transactions

The information required by this Item relating to the directors of our company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Securities Exchange A