

GOLDSRING INC  
Form 10QSB/A  
September 21, 2005

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB/A  
Amendment No. 1

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

For the quarterly period ended June 30, 2005

OR

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

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

Commission File No. 000-32429

**GOLDSRING, INC.**

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

FLORIDA  
(State or other jurisdiction of incorporation or organization)

7389  
(Primary Standard Industrial Classification Code Number)

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

P.O. Box 1118  
Virginia City, NV 89440  
(775) 847-5272  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Yes  No

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:  
250,201,992 shares of Common Stock, \$0.000666 Par Value, as of June 30, 2005.

---

TABLE OF CONTENTS  
PART I - FINANCIAL INFORMATION

ITEM 1.	UNAUDITED FINANCIAL STATEMENTS	F-1
	Consolidated Balance Sheet as of June 30, 2005 (Unaudited)	F-1
	Consolidated Statements of Operations for the three month periods ended June 30, 2005 and 2004 (Unaudited)	F-3
	Consolidated Statements of Operations for the six month periods ended June 30, 2005 and 2004 (Unaudited)	F-4
	Consolidated Statements of Cash Flows for the periods ended June 30, 2005 and 2004 (Unaudited)	F-5
	Notes to Financial Statements	F-6-8
	ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS	1
	ITEM 3. CONTROLS AND PROCEDURES	6
	PART II - OTHER INFORMATION	
	ITEM 1. LEGAL PROCEEDINGS	
	ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	10
	ITEM 3. DEFAULTS UPON SENIOR SECURITIES	10
	ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	11
	ITEM 5. OTHER INFORMATION	11
	ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K	11
	SIGNATURES	13

**Statement Regarding Forward-Looking Statements**

*The statements contained in this report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our “expectations,” “anticipation,” “intentions,” “beliefs,” or “strategies” regarding the future. Forward looking statements 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" in our Form 10-KSB for the year ended December 31, 2004.*

---

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

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

<b>ASSETS</b>	June 30, 2005 (Unaudited - restated)	As Restated December 31, 2004
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 46,295	\$ 1,951,802
Prepaid expenses and other current assets	144,501	149,796
Finished goods inventory	228,286	288,687
Inventory	32,964	-
<b>TOTAL CURRENT ASSETS</b>	<b>452,046</b>	<b>2,390,285</b>
<b>PLANT, EQUIPMENT, AND MINERAL PROPERTIES, NET:</b>		
Mineral properties	1,334,837	1,334,837
Plant and Equipment	1,451,368	1,379,614
Plant, Equipment and Mineral Properties	2,786,205	2,714,451
Accumulated depreciation	(376,521)	(219,834)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>2,409,684</b>	<b>2,494,617</b>
<b>OTHER ASSETS:</b>		
Reclamation deposit	377,169	377,169
Equipment purchase deposit	100,000	110,000
<b>TOTAL OTHER ASSETS</b>	<b>477,169</b>	<b>487,169</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,338,899</b>	<b>5,372,071</b>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,661,371	\$ 589,799
Accrued Expenses	1,911,845	792,884
Short-Term Lease Obligations	34,772	34,517
Current portion of long-term debt	14,564,684	11,521,776
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,172,672</b>	<b>12,938,976</b>
<b>LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion	38,859	243,858
Long-term Lease obligation, net of current portion	97,102	119,152
Long-term Reclamation liability	553,190	553,190
<b>TOTAL LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES</b>	<b>689,151</b>	<b>916,200</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 18,861,823</b>	<b>\$ 13,855,176</b>

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

F-1

---

	June 30, 2005 (Unaudited - restated)	As Restated December 31, 2004
<b>SHAREHOLDERS' DEFICIT</b>		
Common stock, \$.000666 par value, 500,000,000 shares authorized , 250,201,992 shares issued and outstanding	\$ 166,635	\$ 113,966
Treasury Stock	(67)	(67)
Additional paid-in capital (See Note C)	3,013,208	3,574,272
Accumulated deficit - Prior years	(12,171,276)	(2,601,741)
Accumulated deficit - Current year	(6,531,422)	(9,569,535)
<b>TOTAL SHAREHOLDERS' DEFICIENCY</b>	<b>(15,522,922)</b>	<b>(8,483,105)</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>	<b>\$ 3,338,899</b>	<b>\$ 5,372,071</b>

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

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

	<b>2005</b> (Unaudited - restated)	<b>2004</b> (Unaudited - restated)
REVENUE FROM GOLD SALES, NET	\$ 691,861	\$ -
<b>COSTS AND EXPENSES</b>		
Costs Applicable to sales (exclusive of depreciation, and amortization shown separately below)	-	-
Depletion, depreciation and amortization	80,899	-
Reclamation, Exploration and Test Mining Expenses	1,541,290	1,401,856
General and administrative	234,281	304,580
Other	174,196	15,096
<b>TOTAL COSTS AND EXPENSES</b>	<b>2,030,666</b>	<b>1,721,532</b>
<b>OTHER INCOME (EXPENSE)</b>		
Gain on derivative instruments, net	-	395,150
Liquidated Damages	(985,835)	-
Other	-	(42,180)
Interest expense	(468,623)	-
Interest income	-	12,178
	(1,454,458)	365,148
<b>NET LOSS</b>	<b>(2,793,263)</b>	<b>(1,356,384)</b>
Net loss per common share - basic	\$ (0.011)	\$ (0.007)
Basic weighted average common shares outstanding	243,982,021	193,326,278

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



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

	<b>2005</b> (Unaudited - restated)	<b>2004</b> (Unaudited - restated)
REVENUE FROM GOLD SALES, NET	\$ 1,203,951	\$ -
<b>COSTS AND EXPENSES</b>		
Costs Applicable to sales (exclusive of depreciation, and amortization shown separately below)	-	-
Depletion, depreciation and amortization	156,686	-
Reclamation, Exploration and Test Mining Expenses	2,811,380	3,115,950
General and administrative	518,535	578,443
Consulting and professional services	678,464	145,979
<b>TOTAL COSTS AND EXPENSES</b>	<b>4,165,065</b>	<b>3,840,372</b>
<b>OTHER INCOME (EXPENSE)</b>		
Gain on derivative instruments, net	-	395,150
Liquidated Damages	(2,860,468)	-
Other	-	(42,180)
Interest expense	(723,366)	-
Interest income	13,526	12,636
	<b>(3,570,308)</b>	<b>365,606</b>
<b>NET LOSS</b>	<b>(6,531,422)</b>	<b>(3,474,766)</b>
Net loss per common share - basic	\$ (0.031)	\$ (0.019)
Basic weighted average common shares outstanding	208,705,670	184,291,427

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

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

For the six month periods ended June 30,

	2005 (Unaudited - restated)	2004 (Unaudited - restated)
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,531,422)	\$ (3,474,766)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation, depletion, and amortization	156,686	-
Liquidated damages from March 2004 financing and November 2004 restructuring	2,860,468	-
Consulting services provided in exchange for common stock	-	42,000
Accrued Loss on Sale of Gold Investment	-	42,180
<b>(Increase) Decrease in operating assets:</b>		
Finished goods inventory	60,401	(106,689)
Inventory	(32,964)	-
Prepaid and other current assets	5,295	(70,841)
Other assets	-	235,609
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable	1,071,571	375,097
Accrued expenses	34,595	191,904
Other	268,250	-
Total Adjustments to Reconcile Net Loss Used in Operating Activities	4,424,303	709,260
Net cash used in operating activities	(2,107,119)	(2,765,506)
<b>Investing activities:</b>		
Investment in Gold	-	(1,016,700)
Equipment deposit	(10,000)	-
Acquisition of plant, equipment and mineral properties	(71,754)	(39,111)
Net cash used in investing activities	(81,754)	(1,055,811)
<b>Financing activities:</b>		
Net Proceeds from Issuance of Stock	-	332,500
Proceeds from March 2004 financing, net	-	9,150,000
Purchase and Cancellation of Company's Stock	-	(150,000)
Purchase of Company's Stock and Recorded to Treasury	-	(75,000)
Conversion of debt into Company's common shares	460,267	-
Principal payment Note Payable	(176,901)	(200,000)
Net Cash flows provided by financing activities	283,366	9,057,500
Net Increase (Decrease) in cash	(1,905,507)	5,236,183
Cash - beginning of period	1,951,802	364,138
Cash - end of period	\$ 46,295	\$ 5,600,321
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Issuance of notes for liquidated damages for failure to deliver shares	\$ 403,175	\$ -
Issuance of notes for mandatory redemption payment plus accrued interest	\$ 6,885,184	\$ -
Purchase and cancellation of common stock in connection with mandatory redemption payment	\$ 6,801,975	\$ -

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

F-5

---

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

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

**Forward-Looking Statements**

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

**Basis of Presentation**

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

*Restatement of Financial Statements*

As a result of the restatements to our 2004 financials, discussed below, our June 30, 2005 financial statements have been restated. The impact of the 2004 restatements on our financials for the second quarter of 2005 are reflected in the following table.

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

The effect of the restatements on the six month period ended June 30, 2005 consolidated statement of operations is as follows

As Previously Reported	Effect of Restatement	As Restated
---------------------------	--------------------------	----------------

Mineral Properties	\$	1,258,833	\$	76,004	\$	1,334,837
Accumulated Deficit - Prior Years		(\$12,214,532)	\$	43,256		(\$12,171,276)
Net Loss - Current Quarter		(\$6,564,170)	\$	32,748		(\$6,531,422)
Net Loss per share		(\$0.031)	\$	0.00		(\$0.031)

F-6

---

**NOTE B - LIQUIDATED DAMAGES**

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

Liquidated damages relating to:	
November 30, 2004 Non-Registration Provisions	\$ 2,761,939
Failure to timely deliver shares upon notice of converting note holders	98,529
	\$ 2,860,468

*Non-Registration Provisions*

Our November 2004 subscription agreement required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement during the period of his purported control of our company. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Accordingly, at December 31, 2004, we had accrued \$222,013 of liquidated damages relating to Non-Registration Provisions. The liquidated damages continued to accrue in the amount of \$222,013 for each 30-day period after December 30, 2004 until our registration statement is declared effective. Through March 29, 2005, the accrued liquidated damages totaled \$888,052. The Subscription Agreement requires the liquidated damages to be paid in cash or stock issued in a transaction registered under the Securities Exchange Act of 1933, as amended (the "Act"). If paid in stock, we must issue stock in the amount of 200% of the cash payment amount. In lieu of stock issued in a registered transaction, we negotiated with the investors to issue restricted stock at a discount to market while adhering to the other requirements of the subscription agreement. This settlement resulted in the issuance of 59,203,918 shares of restricted common stock.

*Failure to Timely Deliver Conversion Shares*

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

**NOTE C - MANDATORY REDEMPTION PAYMENT**

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

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

The following discussion provides information that we believe is relevant to an assessment and understanding of the consolidated results of operations and financial condition of our company. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes.

The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the quarter ended June 30, 2005, as well as our future results.

### ***Overview***

We are a North American natural resource 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 that can be efficiently put into near-term operation and production. We currently own mineral property rights and conduct our primary mining operations in Storey County, Nevada, 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.

Our current management team was reinstated in mid-February 2005 (see Part II, Item 1 - Legal Proceedings). One of current management's top priorities upon regaining control of the company was to improve efficiencies and increase production at our Plum Mine. To this end, we hired a new mine manager, who has significant experience in gold mining, primarily in and around the area of our current operation. We also implemented modifications to our plant, equipment, and operations during the first half of 2005 to address our past difficulties and increasing operating efficiency. In the spirit of maximizing overall operating performance and reducing costs, effective August 1, 2005, the Company has consolidated its corporate office with the Plum Mine facility. The relocation will reduce costs and allow for more effective utilization of our resources, both human and capital. The new contact information for the corporate office and personnel is listed below.

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

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

### **Additional Contact Information:**

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

Robert Faber, President and CEO  
(480) 603-5151  
E-mail: [rfaber@goldspring.us](mailto:rfaber@goldspring.us)

We believe that many of the non-operating issues that have plagued our company since early-December 2004 are now being resolved. We are now focusing our efforts on achieving positive cash flow and increased production 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. Although this debt obligation is substantial, we believe that we will be able to reach an arrangement with our investors that will allow us to structure the repayments in a manageable fashion.

1

---

During the first half of 2005, we incurred approximately \$2.8 million of liquidated damages and other expenses related to our obligations under the March 2004 and November 2004 subscription agreements. The damages were compounded by the former Chief Executive Officer's decision to withdraw the SEC registration statement and his failure to deliver common shares pursuant to the November 2004 restructuring agreement. We filed the SB-2 registration statement in April of 2005 and have delivered the shares. We are now in the process of trying to get the registration statement declared effective by the SEC. Until the registration statement is declared effective, we continue to incur liquidated damages under the November 30, 2004 Subscription Agreement (See Recent Financing Events and Restructuring for additional information). Between April 28, 2005 and June 30, 2005, the end of the period covered by this report, we incurred approximately \$ 600,000 in liquidated damages, and such damages continued to accrue after the end of such period. Pursuant to the terms of the Subscription Agreement, the damages may be paid in cash or in unrestricted common stock. If paid in stock, we are required to pay 200% of the cash penalty, or approximately \$1.2 million. Because we do not have the cash or stock which was issued in a registered transaction to pay the liquidated damages, we have reached a settlement agreement with the investors to pay the \$1.2 million in liquidated damages in restricted common stock valued at \$0.03 per share. We accrued \$1.2 million in the second quarter of 2005 to reflect this obligation. Pursuant to this settlement agreement, we will be issuing approximately 40 million shares of restricted common stock in the third quarter of 2005.

The Plum Mine operation showed material improvements in efficiency and production in the second quarter of 2005. The crusher, which has been the primary source of setbacks in increasing production, received substantial mechanical improvements early in the quarter. Due to these improvements, we crushed 144,000 tons of mineralized material in the second quarter, representing an increase of 141% from the first quarter 2005. We are in the process of assembling our crushing circuit. Our third-party contractor has discontinued its crushing operations to allow for the set-up of our crushing equipment. We expect our crushing operations to commence in mid-August 2005. This transition from a third-party crushing operator to an in-house operation will bring immediate cost savings and should allow us to reach our target of crushing 60,000 tons of material per month. We also made significant improvements to the Merrill Crowe processing plant during the second quarter. Through a change in pumps and the addition of a second clarifier, we increased capacity at the plant from 100 gallons per minute to 300 gallons per minute and we are now operating 24 hours per day, 7 days per week. We will continue to focus on improving efficiency at the Plum Mine operation through the remainder of 2005.

The improvements at the Plum Mine have resulted in a steady increase in gold production during the second quarter. We produced 353 ounces of gold in April, 527 ounces in May, 1,126 ounces in June, and we are ramping up to our target production of 2,000 ounces of gold per month. Our primary objectives in the third quarter of 2005 are to achieve positive cash-flow and to improve our overall mine operation.

We continue to look for growth opportunities. This process consists of actively conducting exploration to identify additional mineralized material. The successful location of additional mineralized material on the existing property would allow us to expand the size and the lifespan of the Plum mining project, exclusive of new property acquisitions. It is our belief that we possess an 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.

We also seek growth through the acquisition of mining projects which have proven in-ground reserves, advanced permitting, and solid exploration potential. We seek to acquire proven projects whose business operations and business models make those projects economically feasible for a company of our size.

In line with this strategy, on May 4, 2005, we announced that we executed a Letter of Intent to acquire the leases on three patented mineral claims from Comstock Gold, LLC. The Justice, Woodville, and Keystone claims are adjacent to our existing operation at the Plum Mine. The Letter of Intent is subject only to the successful completion of our due

diligence and our board's approval. We expect to complete our due diligence prior to September 30, 2005, after which time we plan to enter into a definitive purchase agreement. The proximity of these claims should allow us to develop the property in a cost-effective manner and likely increase the efficiency of our overall mining operation. This acquisition is important for our company for a number of other reasons as well. First, the claims will expand our mining property by 40 acres, increasing our mineralized material inventory by approximately 33%. Second, the claims will contribute to the enhancement of overall mine extraction and waste disposal efficiencies. Third, these claims will enlarge our footprint in the Comstock Lode region and have the potential for expanding the life of our existing Plum Mine operation. Finally, the addition of these properties will improve our geologic understanding of the entire physical area and its trends.

**Results of Operations and Operational Plan**

Our Plum Mine, which is located in Storey County, Nevada, went into production in late third quarter 2004. The 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 mineralized material, it did impact our ability to mine and crush the mineralized material. As mentioned above, our mining operations essentially shut down in January 2005 due to a combination of harsh weather, equipment difficulties, and management disruption. Although mining operations resumed when the current management was reinstated in mid-February 2005, the equipment difficulties continued throughout the first quarter. For example, between March 15, 2005 and April 1, 2005, we had no crusher production due to inoperable equipment. We have since taken steps to remedy our equipment challenges, including replacing the cone and screen plant on the crusher. Due to these improvements, we crushed 144,000 tons of mineralized material in the second quarter, representing an increase of 141% from the first quarter 2005.

We have made several other improvements to our equipment and operations during the second quarter of 2005 to increase production and improve operating efficiency. On the operations side, we have added additional solution lines to the mineralized material on leach pad number two, adjusted the amount of cement used during the agglomeration phase of processing, and added an agglomerad to our mineralized material. We believe these adjustments will increase recovery results and minimize problems with the crusher. We have also increased production capacity at our Merrill Crowe processing plant by adding a new clarifier, changing the pumps and raising the height of the vacuum tower. With these changes, we increased capacity at the plant from 100 gallons per minute to 300 gallons per minute and we are now operating 24 hours per day, 7 days per week. We believe the combination of the equipment modifications, operational improvements, and management changes made since late-February 2005 leaves us poised to reach our goals for 2005.

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

**Comparative Financial Information:**

	<b>Six Months ended June 30, 2005</b>	<b>Six Months ended June 30, 2004</b>	<b>Difference</b>
Revenue	\$ 1,203,952	\$ 0.0	\$ 1,203,952
Exploration Expense	\$ 2,811,380	\$ 3,112,951	\$ (301,571)
Liquidated Damages	\$ 3,749,266	\$ 0.0	\$ 3,749,266
Net Loss	(\$6,531,422)	(\$3,474,766)	(\$3,056,656)

We sold 2,817 ounces of gold at an average price of \$427 per ounce during the six-month period ended June 30, 2005 compared to no gold sales during the same period of 2004. We spent the first six months of 2004 completing the required infrastructure to complete our “test mine”.

Exploration Expenses were \$301,571 less for the first six months of 2005 than the same period in 2004. This 2005 expense reduction reflects lower infrastructure expenditures in 2005 and a shift to “test mining”. Our Company is an Exploration Stage enterprise and in accordance with Industry Guide 7 infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed. The majority of our infrastructure work was performed in 2004.

In March 2004 we completed a private placement which was subject to Non-Registration Events Provisions (“Non-Registration Provisions”). The Non-Registration Provisions required us to file and cause to become effective a registration statement with the Securities and Exchange Commission so that investors may sell their shares of common stock without restriction. Pursuant to the Subscription Agreement, liquidated damages accrue at a rate of percent (2%) of the investment amount for each thirty day period or part thereof for not having an effective Registration Statement starting in the 3<sup>rd</sup> quarter 2004. In November 2004 we capitalized 100% or \$1.1 million of liquidated damages as part of the November 2004 restructuring. Our November 2004 subscription agreement also required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue at a rate of percent (2%) of the principal amount of the Debenture for each thirty day period or part thereof for not having an effective Registration Statement.

	Quarter ended June 30, 2005	Quarter ended June 30, 2004	Difference
Revenue	\$ 691,861	\$ 0.0	\$ 691,861
Exploration Expense	\$ 1,541,290	\$ 1,401,856	\$ 139,434
Liquidated Damages	\$ 1,874,633	\$ 0.0	\$ 1,874,633
Net Loss	(\$2,793,263)	(\$1,356,384)	(\$1,436,879)

During the 2<sup>nd</sup> quarter 2005 we sold 1,625 ounces of gold at an average price of \$426 per ounce compared to no gold sales during the same period of 2004. Our “test mine” became operational during the 3<sup>rd</sup> quarter 2004 when we began selling gold. Prior to the 3<sup>rd</sup> quarter 2004 we were focused on constructing the required infrastructure to complete our “test mine”.

Exploration Expenses in the 2<sup>nd</sup> quarter 2005 were \$139,434 more than 2<sup>nd</sup> quarter 2004. This variance reflects the exploration drilling performed the 2<sup>nd</sup> quarter 2005 plus the shift from infrastructure construction to “test mining”. Our Company is an Exploration Stage enterprise and in accordance with Industry Guide 7 infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

In March 2004 we completed a private placement which was subject to Non-Registration Events Provisions (“Non-Registration Provisions”). The Non-Registration Provisions required us to file and cause to become effective a registration statement with the Securities and Exchange Commission so that investors may sell their shares of common stock without restriction. Pursuant to the Subscription Agreement, liquidated damages accrue at a rate of percent (2%) of the investment amount for each thirty day period or part thereof for not having an effective Registration Statement starting in the 3<sup>rd</sup> quarter 2004. In November 2004 we capitalized 100% or \$1.1 million of liquidated damages as part of the November 2004 restructuring. Our November 2004 subscription agreement also required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. Our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue at a rate of percent (2%) of the principal amount of the Debenture for each thirty day period or part thereof for not an effective Registration Statement.

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

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

The Big Mike Copper Project is located in Pershing County, Nevada. It covers a total of 310 acres and consists of 17 unpatented lode claims and one placer claim. We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. We have not completed any exploration activity on the project. The property includes an open pit, mineralized material in a stockpile and waste dumps. We believe the property has exploration potential for primary and oxide copper. In November 2004, we entered into a Memorandum of Understanding to form a joint venture to begin exploration activities on this property. The negotiations were put on hold in December 2004 by the dispute over control of the company. We continue to look for a business partner to develop this project. We are still in discussions with the party who executed the Memorandum of Understanding in November 2004.

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 in the area covered by 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 negotiating the acquisition of the coal rights in this area. 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.



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

We recognize that our cash resources are limited. Our continued existence and plans for future growth depend on our ability to obtain the capital necessary to operate, through the generation of revenue or the issuance of additional debt or equity. In July 2005, we received \$800,000 in financing (See Recent Financing Events and Restructuring, below). While this additional funding will meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. As disclosed in the report of our independent registered public accounting firm in our financial statements provided in our Form 10-KSB for the year ended December 31, 2004, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

Under the terms of our November 2004 subscription agreement, we issued 8% convertible notes to an investor group. Under the terms of the notes, our first principal and interest repayment was scheduled for April 1, 2005. Prior to April 1, 2005, knowing that we did not have sufficient cash available to meet these obligations, we began negotiations with the major note holders in an effort to delay repayment of both the principal and interest amounts for a 12-month period. Our negotiations with these note holders regarding the repayment delay have so far been successful and we have reached a tentative agreement regarding the 12-month payment deferral. We remain optimistic that we will reach a definitive agreement. However, we are in default on these notes, and in the event we are not successful in achieving a payment deferral, we will be unable to meet the current note obligations. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligation, there can be no assurance that such funding would be available. If such funding were not available, we might have no alternative other than to default on these notes.

We have yet to realize an operating profit at our Plum Mine location. However, we believe that our Plum Mine operations will become profitable and generate positive cash flow during the year 2005.

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. We are also in the process of taking over the crushing operations from our third-party contractor. This transition requires us to acquire and assemble our own crushing equipment, at an approximate cost of \$100,000. These expenditures represent our only major capital expenditures currently planned for 2005. We intend to finance our crushing equipment, our leach pad expansion project and any other capital expenditures in 2005 through the issuance of debt and equity instruments to existing shareholders and other parties.

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

Upon review of the standards for reporting mineral reserves as defined by SEC Industry Guide 7 ("Guide 7"), we have concluded that we did not have sufficient information to establish the existence of reserves as of December 31, 2004 and that certain costs that we had incurred in the development of our mining facility must be expensed as exploration or "test mining" costs. We have restated our 2004 financial statements to classify all costs previously capitalized (the recovery of which is dependent upon the economical extraction of gold from the mineralized material we are currently processing), as test mining expenses. These costs, which total approximately \$4.5 million net of accumulated depreciation, include our asset retirement obligation asset of \$453,786. In connection with our restatement of our mineral property assets, we have also restated our asset retirement obligation liability, classifying it as an environmental reclamation liability and not an asset retirement obligation as described by Financial Accounting Standards Board Statement No. 143.

We have also restated our shareholders' equity. On December 20, 2004, we received notice from holders of approximately \$3.8 million of convertible notes of their intention to convert into shares of our common stock. In



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

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

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

In 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 June 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 - 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 2004 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 2004 Offering. We worked with the investors to address their concerns in a manner that would not force us to pay a large cash penalty or face a lawsuit, both of which would be detrimental to our shareholders. In consideration for restructuring the original transaction, the investors agreed to grant us a release for any misrepresentations that may have been made, allowed us to capitalize the accrued liquidated damages, and provided us with an additional 90 days to cause the registration statement to become effective, thereby avoiding potential liquidated damages of \$600,000 if the registration statement were to be filed before December 30, 2004.

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

7

---

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

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

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

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

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

issued approximately 59 million shares of restricted common stock in April 2005.

8

---

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

#### Off-Balance Sheet Arrangements.

We were not a party to any off-balance sheet arrangements during the period covered by this report. [See Regulation S-B 303(c) for required disclosure of off-balance sheet arrangements. I have made the assumption that there were none, but if the company did have them, they need to be disclosed here under a separate caption.]

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

Based on the most recent evaluation, which was completed as of the end of the period covered by this Form 10-QSB, we believe our company's disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e) are effective to ensure that information required to be disclosed by us in this report is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our executive officers have also concluded that our disclosure controls and procedures are also effective to give reasonable assurance that the information required to be disclosed in our filings is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

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

In December 2003 our CFO implemented a business expense reimbursement policy which he reviewed with all employees who regularly traveled for business including the Company's founder, CEO and Chairman. The CFO discussed the policy again with the former CEO and Chairman in January 2004 due to his failure to comply with the policy. The CEO's continued failure to properly document business expenses led the CFO to discuss the problem with the Company's Board of Directors, the Company's outside auditor and legal counsel. In April / May 2004 the Company's outside auditor spoke with the CEO regarding his failure to document travel and entertainment expenses. In August 2004 the Company's Board of Directors decided to take firm measures to resolve this problem with the CEO. These steps led to the CEO's resignation on September 3, 2004. The Board then appointed the CFO as President and Chief Executive Officer.



In response to this deficiency, five independent board members were added and an audit committee, composed of directors' independent of the Company's day-to-day management function, was formed to oversee the financial reporting and to review and approve executive expense account charges.

As our former CFO is assuming the duties of the CEO and the Company has presently not hired another individual to act as CFO, we believe we have a significant deficiency with respect to the lack of qualified accounting personnel. We have been able to mitigate this deficiency by engaging outside consultants to assist the Company in its accounting activities, but acknowledge that the only effective long-term solution to our accounting needs is to hire a qualified CFO. Due to our budgetary constraints and the small size of our company we are uncertain as to when we will be able to accomplish this. We estimate that the annual cost of a qualified individual to act as the Company's CFO would be between \$75,000 and \$100,000.

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

## **PART II - OTHER INFORMATION**

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

#### *The State Court Case*

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

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

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

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





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

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

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

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

#### ***Background***

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

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

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

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

December 9, 2004; (3) entering into any contracts or agreements with third parties on behalf of our company or disposing of or transferring any property or assets of our company; and (4) issuing or otherwise transferring any stock or debentures.

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

*The Preliminary Injunction and Notice of Appeal*

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

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

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

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

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

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

On April 13, 2005, a notice of appeal was filed on behalf of the Parents, the Gaschs, and the Medhis seeking to reverse the Court's March 17 Order. On April 21, 2005, the Gaschs moved to dismiss their appeal. On June 10, 2005, the Parents filed their opening appellate brief. The response to the Parents' opening brief is due on August 16, 2005.

*The Investors' Motion to Intervene*

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

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

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

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

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

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

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

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

*The “New” Consent Resolutions*

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

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

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

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

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

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Under the terms of our November 2004 subscription agreement, we issued 8% convertible notes to an investor group. Under the terms of the notes, our first principal and interest repayment was scheduled for April 1, 2005. Prior to April 1, 2005, knowing that we did not have sufficient cash available to meet these obligations, we began negotiations with the major note holders in an effort to delay repayment of both the principal and interest amounts for a 12-month period. Our negotiations with these note holders regarding the repayment delay have so far been successful and we have reached a tentative agreement regarding the 12-month payment deferral. We remain optimistic that we will reach a definitive agreement. However, in the event we are not successful in achieving a payment deferral, we will be unable to meet the current note obligations. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligation, there can be no assurance that such funding would be available. If such funding were not available, we might have no alternative other than to default on these notes.

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

Not applicable.

**Item 5. Other Information**

Not applicable.

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

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

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

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



(2) Exhibits filed as part of this Report:

Exhibit Number	Exhibit
10.8(c)	Funds Escrow Agreement, dated as of March 31, 2005 among the Registrant, the subscriber parties thereto, and the escrow agent
10.9	Settlement Agreement dated as of March 29, 2005 by and among the Registrant and the subscriber parties to the Subscription Agreement dated as of November 30, 2004 related to the payment of liquidated damages incurred for Registrant's failure to have an effective registration statement
10.10	Settlement Agreement dated as of March 31, 2005 by and among the Registrant and certain subscriber parties to the Subscription Agreement dated as of November 30, 2004 related to the payment of a mandatory redemption payment demand incurred for Registrant's failure to deliver shares following Registrant's receipt of Notices of Conversion
10.11	Settlement Agreement dated as of March 31, 2005 by and among the Registrant and certain subscriber parties to the Subscription Agreement dated as of November 30, 2004 related to the payment of liquidated damages incurred for Registrant's failure to deliver shares following Registrant's receipt of Notices of Conversion
10.12	Security Agreement, dated as of March 31, 2005, by and among the Registrant and the parties to the Settlement Agreement dated March 31, 2005 related to the payment of a mandatory redemption payment demand incurred for Registrant's failure to deliver shares following Registrant's receipt of Notices of Conversion
10.13	Form of Secured Convertible Debenture, dated as of March 31, 2005 issued by the Registrant to the subscribers
10.14	Form of Convertible Note, dated as of March 31, 2005 issued by Registrant to the subscribers
10.15	Loan Agreement dated as of July 15, 2005 by and among the Registrant and the subscriber parties thereto
10.16	Security Agreement dated as of July 15, 2005 by and among the Registrant and the subscriber parties to the Loan Agreement dated July 15, 2005
10.17	Form of Promissory Note, dated as of July 15, 2005 issued by the Registrant to the subscribers to the Loan Agreement dated July 15,

2005

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended
  - 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended
  - 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (b) Reports filed on Form 8-K during the quarter ended June 30, 2005:
- (1) A Report on Form 8-K was filed with the Securities and Exchange Commission on April 6, 2005 under Item 1.01 relating to our entry into three settlement agreements concerning liquidated damages owed to certain investors pursuant to our November 30, 2004 subscription agreement. A disclosure was also made in this report under Item 3.02 relating to our issuance of securities in connection with the settlement agreements.
  - (2) A Report on Form 8-K was filed with the Securities and Exchange Commission on April 14, 2005 under Item 5.02 relating to the resignation of one of our directors, P.K. Rana Medhi. Mr. Medhi expressed no disagreements with the Company in tendering his resignation.

**SIGNATURES**

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

Date: September 21, 2005

GOLDSRING, INC.  
(Registrant)

By: /s/ Robert T. Faber  
Name: Robert T. Faber  
Title: President and Chief Executive Officer  
Officer:

By: /s/ Robert T. Faber  
Name: Robert T. Faber  
Title: Chief Financial Officer