

GOLDSRING INC
Form 10QSB
May 15, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

OR

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

For the transition period from to

Commission File No. 000-32429

GOLDSRING, INC.

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

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

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

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

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

Yes No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date:
637,614,495 shares of Common Stock, \$0.000666 Par Value per share, as of April 30, 2006.

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Statement Regarding Forward-Looking Statements

The statements contained in this report on Form 10-QSB that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward looking statements include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper, diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold exploration, including risks of diminishing quantities or grades of reserves; and contests over our title to properties. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1, "Business - Risk Factors" in our Form 10-KSB for the year ended

December 31, 2005.

PART I - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS****GOLDSRING, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET****March 31, 2006**
(Unaudited)

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 101,893
Accounts receivable, net	199,286
Prepaid expenses and other current assets	81,600
Inventories	0
Deferred financing fees, net	395,326
TOTAL CURRENT ASSETS	778,105
PLANT, EQUIPMENT, MINE DEVELOPMENT, AND MINERAL PROPERTIES, NET:	
Mineral properties	1,669,837
Plant, Equipment, Mine Development	934,216
TOTAL PROPERTY AND EQUIPMENT	2,604,053
OTHER ASSETS:	
Reclamation deposit	377,169
Other	0
TOTAL OTHER ASSETS	377,169
TOTAL ASSETS	\$ 3,759,327

The accompanying notes are an integral part of these financial statements

LIABILITIES AND SHAREHOLDERS' DEFICIENCY**CURRENT LIABILITIES**

Accounts Payable	\$ 396,545
Accrued Expenses	1,187,926
Accrued liquidated damages	1,913,418
Accrued interest	1,092,810
Short-Term Lease Obligations	28,870
Current portion of long-term debt	14,039,258
TOTAL CURRENT LIABILITIES	18,658,827

LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

Long-term debt, net of current portion	128,328
Long-term Lease obligation, net of current portion	69,572
Long-term Asset retirement obligations	553,190
TOTAL LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES	751,090
TOTAL LIABILITIES	\$ 19,409,917

SHAREHOLDERS' DEFICIT

Common stock, \$.000666 par value, 800,000,000 shares authorized , 537,197,775 shares issued and outstanding	\$ 357,774
Treasury Stock	(67)
Additional paid-in capital	8,533,138
Accumulated deficit - Prior years	(23,524,302)
Accumulated deficit - Current year	(1,017,133)
TOTAL SHAREHOLDERS' DEFICIENCY	(15,650,590)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	\$ 3,759,327

The accompanying notes are an integral part of these financial statements

GOLDSRING, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
For the three month period ended March 31,

	2006 (Unaudited)	2005 (Restated)
REVENUE FROM GOLD SALES, NET	\$ 537,806	\$ 512,091
COSTS AND EXPENSES		
Costs Applicable to sales (exclusive of depreciation, and amortization shown separately below)	-	-
Depletion, depreciation and amortization	150,024	75,787
Exploration	425,776	1,269,721
General and administrative	180,073	323,433
Consulting and professional services	154,817	465,088
TOTAL COSTS AND EXPENSES	910,690	2,134,029
OTHER INCOME (EXPENSE)		
Other (See Note 6)	-	(1,874,633)
Gain on sale of fixed assets	105,397	-
Interest expense	(749,646)	(255,109)
Interest income	-	13,521
	(644,249)	(2,116,221)
NET LOSS	(1,017,133)	(3,738,159)
Net loss per common share - basic	\$ (0.002)	\$ (0.022)
Basic weighted average common shares outstanding	418,221,956	173,379,180

The accompanying notes are an integral part of these financial statements

GOLDSRING, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three month period ended March 31,

	2006 (Unaudited)	2005 (Restated)
Cash flows from operating activities:		
Net loss	\$ (1,017,133)	\$ (3,378,159)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, and amortization	226,848	75,787
Liquidated damages from November 2004 restructuring converted into common stock	-	1,874,633
(Increase) Decrease in operating assets:		
Finished goods inventory	52,000	181,955
Inventory	-	(41,377)
Prepaid and other current assets	(54,100)	(26,096)
Accounts receivable	(199,286)	-
Increase (decrease) in operating liabilities:		
Accounts payable	(870,529)	53,952
Accrued expenses	827,040	56,135
Accrued interest	(229,109)	-
Asset retirement obligation	-	33,500
Other	999,486	351,728
Total Adjustments to Reconcile Net Loss Used in Operating Activities	752,350	2,560,217
Net cash used in operating activities	(264,783)	(1,177,942)
Investing activities:		
Equipment deposit	-	10,000
Acquisition of plant, equipment and mineral properties	-	(48,380)
Net cash used in investing activities	-	(38,380)
Financing activities:		
Proceeds from financing, net	400,000	-
Principal payment Note Payable	(60,189)	(115,175)
Net Cash flows provided by financing activities	339,811	(115,175)
Net Increase (Decrease) in cash	75,028	(1,331,497)
Cash - beginning of period	26,865	1,951,802
Cash - end of period	\$ 101,893	\$ 620,305
Supplemental disclosures of non-cash investing and financing activities:		
Issuance of notes for liquidated damages for failure to deliver shares	\$ -	403,175
Issuance of notes for mandatory redemption payment (See Note C)	\$ -	\$ 6,885,184
Purchase and cancellation of common stock in connection with mandatory redemption payment (See Note C)	\$ -	\$ 6,801,975
Conversion of debt into common shares	2,320,841	
Issuance of common stock for interest expense	955,259	

The accompanying notes are an integral part of these financial statements

GOLDSRING, INC.
NOTES TO FINANCIAL STATEMENTS
March 31, 2006 AND 2005

NOTE 1 - DESCRIPTION OF BUSINESS, GOING CONCERN, MANAGEMENT PLANS AND BASIS OF PRESENTATION

Description of Business

We are a North American precious metals mining company with an operating gold and silver test mine in northern Nevada. Our Company was formed in mid-2003, and we acquired the Plum property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. During 2005, we acquired additional properties around the Plum project in Northern Nevada, expanding our footprint and creating opportunities for exploration. We are an emerging company, looking to build on our success through the acquisition of other mineral properties in North America with reserves and exploration potential that can be efficiently put into near-term production. Our objectives are to increase production; increase reserves through exploration and acquisitions; expand our footprint at the Plum mine; and maximize cash flow and the return for our shareholders. We were incorporated in the state of Florida effective October 19, 1999 under the name of Click and Call, Inc.. On June 7, 2000, we filed an amendment to our Articles of Incorporation changing our name to STARTCALL.COM, INC. On March 10, 2003, we changed our name to GoldSpring, Inc. The primary nature of our business is the exploration and development of mineral producing properties.

Going Concern

The financial statements are presented on the basis that our company is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business over a reasonable length of time. We have incurred operating losses since its inception. This condition raises substantial doubt as to our ability to continue as a going concern.

Management Plans

Our plans for the continuation of our company as a going concern include developing our Plum Mine into a profitable operation and potentially supplementing financing of our operations through sales of our unregistered common stock and borrowings from affiliates and other shareholders. There are no assurances, however, with respect to the future success of these plans. The financial statements do not contain any adjustments, which might be necessary, if we are unable to continue as a going concern.

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 March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Summarized below are the significant accounting policies of GoldSpring, Inc. ("we," "GoldSpring," or the "Company") Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations.

Principles of Consolidation

The consolidated financial statements include the accounts of our company and its wholly owned subsidiaries. All material inter-company transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

We consider all highly liquid debt securities purchased with original or remaining maturities of three months or less to be cash equivalents. The carrying value of cash equivalents approximates fair value.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair market value because of the short maturity of those instruments. Furthermore, convertible debenture and other notes payable amounts approximate fair value at March 31, 2006 and 2005. Pursuant to EFIT No. 0027 "Application of Issue No. 98-5 to Certain Convertible Instruments" we were required allocate value to the warrant issued with the debenture, and to record a discount on the debenture for its conversion feature. We are in default on these convertible debentures and thus have recorded these notes at face value.

Credit Risk

It is our practice to place our cash equivalents in high-quality money market securities with a major banking institution. Certain amounts of such funds are not insured by the Federal Deposit Insurance Corporation. However, we consider our credit risk associated with cash and cash equivalents to be minimal.

Impairment of Long Lived Assets and Long Lived Assets to be Disposed Of

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Practice Bulletin ("APB") Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and

Infrequently Occurring Events and Transactions,” for the disposal of a segment of a business (as previously defined in that opinion). This statement establishes the accounting model for long-lived assets to be disposed of by sale and applies to all long-lived assets, including discontinued operations. This statement requires those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

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SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. We adopted SFAS No. 144 in our evaluation of the fair value of certain assets described in these financial statement footnotes.

Inventories

We state inventories at the lower of average cost or net realizable value. At March 31, 2006 and 2005, our inventories consisted of \$0 and \$106,732, respectively, of doré and bullion in our accounts at refineries. At March 31, 2005 we had \$0 of supplies and reagents compared to \$41,377 at March 31, 2006. We were unable to estimate our in-process inventories at March 31, 2005, as our gold production processes are still in their inception stage, and we do not yet have sufficient data available to accurately calculate in-process inventory. We value inventories at the lower of full cost of production or net realizable value based on current metals prices. We determine net realizable value by estimating value based on current metals prices, less cost to convert stockpiled and in-process inventories to finished products.

Revenue Recognition

Sales of gold and silver dore are recorded when title and risk of loss transfer to the refiner at current spot metals prices. Sales are calculated based upon assay of the dore's precious metal content and its weight. Recorded values are adjusted upon final settlement from the refiner that usually occurs within 24 days of delivery. If we have reason to believe that the final settlement will materially affect our recognition of revenue because of a difference between the refiner's assay of precious metals contained in the dore and ours, we establish a reserve against the sale.

Stock Issued For Services

We base the value of stock issued for services on the market value of our common stock at the date of issue or our estimate of the fair value of the services received, whichever is more reliably measurable.

Deferred Financing Charges

During the first quarter of 2006 we recorded deferred financing charges associated with the issue of promissory notes payable totaling \$0. We amortize the charges over the respective lives of the promissory notes payable as interest expense. During the quarter ended March 31, 2006 we recognized \$76,824 of interest expense related to the amortization of deferred financing fees.

Plant and Equipment

We state plant and equipment at cost. We provide depreciation and amortization in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives or productive value.

We capitalize expenditures for renewals and improvements that significantly extend the useful life of an asset. We charge expenditures for maintenance and repairs to operations when incurred. When assets are sold or retired, the cost of the asset and the related accumulated depreciation are removed from the accounts and any gain or loss is recognized at such time. We use the straight-line method of depreciation for financial reporting purposes, depreciating assets over useful lives ranging from 3 to 7 years.

We review the carrying value of our plant and equipment assets on a quarterly basis. Where information and conditions suggest impairment, we write down these assets to net recoverable amount, based on estimated future cash flows that may be attained from them.

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Mineral Properties

We defer acquisition costs until we determine the viability of the property. Since we do not have proven and probable reserves as defined by Industry Guide 7, exploration expenditures are expensed as incurred.

We expense holding costs to maintain a property on a care and maintenance basis as incurred.

We review the carrying value of our interest in each property on a quarterly basis to determine whether an impairment has incurred in accordance with the Financial Accounting Standards Board (FASB) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Where information and conditions suggest impairment, we write down these properties to net recoverable amount, based on estimated future cash flows. Our estimate of gold price, mineralized materials, operating capital, and reclamation costs are subject to risks and uncertainties affecting the recoverability of our investment in property, plant, and equipment. Although we have made our best estimate of these factors based on current conditions, it is possible that changes could occur in the near term that could adversely affect our estimate of net cash flows expected to be generated from our operating properties and the need for possible asset impairment write-downs.

Where estimates of future net operating cash flows are not available and where other conditions suggest impairment, we assess if carrying value can be recovered from net cash flows generated by the sale of the asset or other means.

We carry our property acquisition and capitalized plant and equipment costs at cost less accumulated amortization and write-downs.

Reclamation Liabilities and Asset Retirement Obligations

Minimum standards for site reclamation and closure have been established by various government agencies that affect certain of our operations. We calculate our estimates of reclamation liability based on current laws and regulations and the expected undiscounted future cash flows to be incurred in reclaiming, restoring, and closing our operating mine sites. When we incur reclamation liabilities that are not be related to asset retirements we recognize the obligations in accordance with Statement of Position No. 96-1.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations."

SFAS 143 established a uniform methodology for accounting for estimating reclamation and abandonment costs. The Standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. SFAS No. 143 requires us to record a liability for the present value of our estimated environmental remediation costs and the related asset created with it when a recoverable asset (long-lived asset) can be realized. In our case, the long-lived asset is directly related to the mining infrastructure costs being expensed by our Company. Since we do not yet have proven or probable reserves as defined by Industry Guide 7, and in accordance with FASB No. 143 our asset retirement obligation was expensed directly to reclamation expense.

Earnings Per Common Share

In calculating earnings per common share, we compute basic earnings per share by dividing net loss by the weighted average number of common shares outstanding, excluding the dilutive effects of common stock equivalents. For the periods ended March 31, 2006 and 2005, we had net losses for which the affect of common stock equivalents would be anti-dilutive, accordingly only basic loss per share is presented.

Recent Authoritative Pronouncements

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On December 16, 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards, or Statement, No. 123 (revised 2004), Share-Based Payment ("Statement 123(R)"), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation ("Statement 123"). Statement 123(R) supersedes Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. Statement 123(R) requires that all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Pro forma disclosure is no longer permitted. Statement 123(R) is effective for small business issuers at the beginning of the first interim or annual period beginning after December 15, 2005. As permitted by Statement 123, we currently account for share-based payments to employees using APB 25's intrinsic value method. We adopted Statement 123(R) on January 1, 2006 using the modified prospective method.

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4." SFAS 151 seeks to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) in the determination of inventory carrying costs. The statement requires such costs to be treated as a current period expense. This statement is effective November 1, 2005 for the Company. The Company does not believe that the adoption of SFAS 151 will have a significant impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154, "Accounting Changes and Error Corrections - a Replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also redefines "restatement" as the revising of previously issued financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 (or fiscal 2007 for the Company). The Company does not believe that the adoption of SFAS 154 will have a significant impact on its consolidated financial statements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenditures during the reported periods. Actual results could differ materially from those estimates. Estimates may include those pertaining to the estimated useful lives of property and equipment and software, determining the estimated net realizable value of receivables, and the realization of deferred tax assets.

Risks and Uncertainties

We regularly evaluate risks and uncertainties and, when probable that a loss or expense will be incurred, record a charge to current period operations.

Income Taxes

We recognize deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be recovered. We provide a valuation allowance for deferred tax assets for which we do not consider realization of such assets to be more likely than not.

NOTE 3 - NOTES PAYABLE STOCKHOLDERS

As of March 31, 2006, the Company is in default of the terms on an outstanding note payable with several of its note holders with principal balance due of \$13,291,150 and accrued interest of \$1,069,629.

NOTE 4 - COMMON STOCK

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During the three months ended March 31, 2006, the Company issued 212,150,563 shares of common stock valued at \$3,276,100 in connection with the partial conversion of principal and interest of certain convertible debentures (see Note 7).

NOTE 5 - WARRANTS

Transactions involving warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance - January 1, 2006	27,751,639	\$ 0.20
Warrants issued during the period	0	
Warrants expired during the period	0	
Warrants exercised during the period	0	
Balance - March 31, 2006 (all exercisable)	27,751,639	\$ 0.20

NOTE 6 - OTHER ITEMS

LIQUIDATED DAMAGES

For the first quarter of 2005 (ended March 31, 2005), we recorded liquidated damages expenses due to investors of our March 2004 offering and subsequent November 30, 2004 restructuring as follows:

Liquidated damages relating to:	
November 30, 2004 Non-Registration Provisions	\$ 1,776,104
Failure to timely deliver shares upon notice of converting note holders	98,529
	\$ 1,874,633

These liquidated damages ceased in October 2005 when our Registration Statement was declared effective.

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 was declared effective in October 2005.

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, free-trading stock 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.

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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 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 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.

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, Mr. Doyle and Ecovery, Inc. have filed answers and generally denied the allegations of 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

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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 defendants (the Parents, the Gaschs, and the Medhis) seeking to reverse the Court's March 17 Order. On April 21, 2005, the Gaschs moved to dismiss their appeal. On June 10, 2005, the defendants (the Parents) filed their opening appellate brief. The plaintiffs filed their response brief on August 16, 2005. The defendants' response brief was filed on October 3, 2005. The 9th Circuit Court of Appeals held oral arguments on the appeal on January 12, 2006.

On January 23, 2006, the United States Court of Appeals for the Ninth Circuit issued a Memorandum disposition in the matter of *Faber v. Parent*, stating, “We reverse the district court’s decision to grant the preliminary injunction for failure to comply with the requirements of Rule 52(a). However, the injunction shall remain intact for a reasonable time not to exceed 90 days from the date on which this disposition is filed or until an earlier date on which the district court enters a succeeding preliminary injunction. During this time, the district court may issue a new preliminary injunction if, after undertaking the required analysis and making the necessary findings, it deems such an injunction appropriate.” The preliminary injunction, issued by the district court on February 15, 2005, had reinstated GoldSpring’s Board of Directors as it existed prior to Mr. Parent’s takeover of GoldSpring on December 10, 2004. The Memorandum disposition also stated that, “If, after further proceedings, the district court does not order a new preliminary injunction, we leave it to the district court to restore, as near as possible, the situation that would have existed if the preliminary injunction had never been granted.”

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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

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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.

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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 jointed represented by 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.

On January 23, 2006, the United States Court of Appeals for the Ninth Circuit issued a Memorandum disposition in the matter of *Faber v. Parent*, reversing the Preliminary Injunction, which had been granted by the United States District Court for the District of Arizona on February 15, 2005 for Mr. Parent's failure to comply with the requirements of Rule 52(a). The Court of Appeals ordered that the injunction shall remain intact for a reasonable period of time not to exceed 90 days or until an earlier date on which the district court enters a succeeding preliminary injunction. The Court of Appeals remanded the case to the district court to allow the district court to conduct further proceedings, which may include issuing a new preliminary injunction.

SALE OF ASSETS

On March 21, 2006, the Company completed the sale of its Canadian subsidiaries, Clear Hills Iron Ltd. and Peace River Energy Ltd. to CaNev Resources, a Canadian Corporation. The assets divested in the transaction include 32 industrial (non-energy) mineral permits covering approximately 800 square miles in northern Alberta, Canada. In consideration for the assets, GoldSpring will receive CDN\$1.1 million. CDN\$100,000 of the sales price will be paid in cash, and the balance will be paid through a three percent production royalty.

EMPLOYMENT AGREEMENTS

We have an employment agreement with Robert T. Faber extending through August 2009. The employment agreement provides for Mr. Faber to serve as our Chief Financial Officer and was not modified after Mr. Faber was appointed President and Chief Executive Officer. The employment agreement provides for base compensation of \$120,000 per year, subject to increases to up to \$200,000 per year if our company achieves designated revenue levels. The employment agreement also provides for incentive compensation as determined by our board of directors. In addition, the employment agreement provides for Mr. Faber to be granted options to purchase shares of our common stock at prices ranging from \$.50 to \$2.00 per share. Mr. Faber is entitled to a use of a company car, contributions to a 401(k) plan, and life insurance coverage.

The employment agreement with Mr. Faber contains a covenant not to compete with our company for a period of two years immediately following termination of employment. We may terminate Mr. Faber for "cause" as defined in the employment agreement. We will be required to pay Mr. Faber's compensation during the term of the agreement if we terminate him without cause.

NOTE 7 - NOTE FINANCINGS

Convertible Debentures-Investors

We completed a private placement of securities transaction 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 closing of the March Offering, we failed to meet certain provisions of the offering that required for us to provide for an effective registration statement with the Securities and Exchange Commission.

As a result, and effective November 30, 2004, we restructured the private placement transaction and entered into a new subscription agreement. In connection with the restructuring, we exchanged 8% convertible notes in the aggregate principal amount of approximately \$11.1 million and four-year warrants to purchase approximately 27.8 million shares of common stock at an exercise price of \$0.20 per share, subject to anti-dilution adjustments, for 21,739,129 shares of common stock and 21,739,129 warrants to purchase shares of common stock issued in the March Offering. The principal amount of the convertible notes consist 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. (See Notes 9 and 12).

The 8% convertible notes mature in November 2006. We must make monthly payments of 102% of 1/20th of the initial principal amount, together with accrued interest. We have the option to repay such amounts in shares of our common stock at a conversion rate equal to 85% of the average of the five lowest closing bid prices of our common stock during the 20 trading days preceding each payment date. We may prepay the outstanding principal amount by paying the holders of the notes 115% of the then-outstanding principal amount. Each holder of notes may convert the notes into shares of common stock at an initial conversion price of \$0.20 per share, which is subject to anti-dilution adjustments. During the first 20 days following the closing date, the conversion price may be reduced to a price equal to 70% of the average of the five lowest closing prices of our common stock during the 20 trading days preceding the closing date.

On April 1, 2005, we failed to make our first payment on the notes and were in default of the terms of the convertible notes. 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. The applicable conversion rate was approximately \$0.11 per share, and we were obligated to issue 33,817,594 shares of our common stock. Under the terms of the subscription agreement, we had three business days following receipt of the notice of conversion of notes to deliver to the note holders' free-trading common stock certificates (the "Delivery Date"). Although the shares were due to be delivered in December 2004, they were not delivered until 2005. As a result of our failure to deliver shares, we were subject to liquidated damages that were settled by the issuance of notes payable to the investors.

Convertible Debentures-Mandatory Redemption Payment

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 did not deliver the share certificates within the period required in the subscription agreement and as a result, in March of 2005, John V. Winfield, a major shareholder and note holder elected to demand payment of approximately \$6.9 million pursuant to the mandatory redemption payment provisions of the subscription agreement and forfeit his right to receive the shares in favor of the payment.

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On March 31, 2005, we entered into a Settlement Agreement (“Settlement”) with the Mr. Winfield and agreed to convert the mandatory redemption payment into six Convertible Debentures (“the Debentures”). Accordingly, we accrued a liability for approximately \$6.9 million and reduced our paid-in-capital account for approximately \$3.5 million (See Note 12). The Debentures are subject to various covenants and conditions, including, but not limited to anti-dilution rights and protective rights.

The Debentures accrue interest at 12% per annum and are payable in monthly installments of principal and interest over a 24 month period with the remaining entire balance of unpaid principal and interest due on March 31, 2007. The debentures are subject to the following terms:

Conversion Rights

The Debentures are convertible, in all or in part, into shares of our common stock (“Conversion Shares”) at any time. The conversion price shall be equal to the lesser of: (i) eighty-five percent (85%) of the average of the five (5) lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the twenty (20) trading days preceding the date the Company was obligated to pay the mandatory redemption Payment; and (ii) eighty-five percent (85%) of the average of the five (5) lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the twenty (20) trading days preceding the date of any such conversion; provided, however, until the effective date of the registration statement (see below), the conversion price shall be fifty-percent (50%) of the average of the five (5) lowest closing bid prices of the Common Stock as reported by Bloomberg L.P. for the twenty (20) trading days preceding the date of any such conversion. In no event shall the conversion price be higher than (i) \$0.1131 and (ii) the conversion price of the convertible notes (See Note 6), as adjusted from time to time, whichever is lower.

Security Agreement

Pursuant to the terms of the Settlement Agreement, the Debentures are granted a priority collateralized position, second only to our note payable to the Brockbank Trust in substantially all of our assets.

Mandatory Registration Rights

The terms of the Debenture agreement require that we must file with the Securities and Exchange Commission on a Form SB-2 registration statement, or such other form that we are eligible to use, to register the Conversion Shares, together with any other shares of Common stock issuable hereunder for resale and distribution under the 1933 and cause to be filed not later than April 30, 2005 and declared effective not later than June 30, 2005. If we fail to make effective a registration statement we are subject to liquidated damages, an amount equal to two percent (2%) for each thirty (30) days or part thereof, thereafter of the principal amount of the Debenture remaining unconverted and purchase price of Conversion Shares issued upon conversion of the Debenture owned of record by the holder. The Company must pay the liquidated damages in cash or an amount equal to two hundred percent of such cash liquidated damages if paid in additional shares of registered un-legended free trading shares of common stock. As of December 31, 2005 we had failed to make any monthly payments on the debentures and are in default.

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, free-trading stock 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

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Accordingly, at March 31, 2006 and March 31, 2005, we classified the following convertible debentures as current liabilities as follows:

	Mar. 31, 2006	Mar. 31, 2005
Convertible Debentures Payable-Investors	\$ 3,899,617	7,292,576
Convertible Debentures Payable- Mandatory Redemption payment	6,885,184	6,885,184
Convertible Debentures Payable- Failure to Deliver Shares	\$ 356,348	403,175
Total	\$ 11,141,149	14,580,935

Promissory Notes Payable—July Financing

In July of 2005, we borrowed \$1.2 Million from companies controlled by John V. Winfield, a major shareholder. Proceeds from the notes were reduced by a 33.3% original issue discount and other origination fees. Net proceeds received by the Company from the borrowing were \$740,000. The notes accrue interest at 15% per annum and are payable in monthly installments of principal and interest over a 24 month period with the remaining entire balance of unpaid principal and interest due on July 15, 2007.

The notes are collateralized by substantially all of the Company's assets subject to the security interest of the Brockbank Trust. As of March 31, 2006 we had failed to make any monthly payments on the notes and are in default.

Promissory Notes Payable—September Financing

In September of 2005, we borrowed \$300,000 from Longview Fund L.P., a major shareholder. Proceeds from the notes were reduced by a 33.3% original issue discount and other origination fees. Net proceeds received by the Company from the borrowing were \$165,500. The notes accrue interest at 15% per annum and are payable in monthly installments of principal and interest over a 24 month period with the remaining entire balance of unpaid principal and interest due on July 15, 2007. The notes are collateralized by substantially all of the Company's assets subject to the security interest of the Brockbank Trust and the Winfield convertible debentures of March 2005.

The notes share a security interest with the Winfield notes issued in July 2004. As of March 31, 2006 we had failed to make any monthly payments on the notes and are in default.

Promissory Notes Payable—December Financing

In December of 2005, we borrowed \$575,000 from Longview Fund L.P., a major shareholder. The notes accrue interest at 16% per annum, are uncollateralized and was payable including accrued interest on or before March 15, 2006 and has not been repaid

Accordingly, at March 31, 2006 we classified the following notes payable as current liabilities as follows:

	Mar, 31, 2006
Promissory Notes Payable-July Financing	\$ 1,200,000
Promissory Notes Payable-September Financing	300,000
Promissory Notes Payable-December Financing	575,000
Promissory Notes Payable-first quarter 2006 Financing	400,000
Total	\$ 2,475,000

Notes Payable- Plum Mine

We have a non-interest bearing note payable to a shareholder related to our purchase of the Plum Mining property. The note is payable in ten quarterly payments through June 2006.

Notes Payable- Seller Note

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In connection with our acquisition of the Justice, Woodville and Keystone patented claims we issued a promissory note to the seller for \$160,000. The note is payable in ten quarterly payments through June 2008.

Notes Payable- Equipment Financing

During 2004, we purchased certain equipment and financed our purchases through GMAC and Ford Motor Company credit agencies. Aggregated principal and interest due pursuant to the financings is due monthly in equal installments of \$1,054, at an averaged interest rate of 7.2%. The equipment purchased is pledged as collateral for the debt. At March 31, 2006 and March 31, 2005, we had the following amounts due under the financings as follows:

	Mar. 31, 2006	Mar. 31, 2005
Short-term Debt-Current Plum Mine	\$ 9,108	34,772
Short-term Debt-Current Seller Note	414,000	400,000
Other short-term Debt-Current	\$ 28,870	8,649
Total	\$ 451,978	443,421
	Mar. 31, 2006	Mar. 31, 2005
Long-term Debt-non current Plum Mine	\$ 32,328	41,445
Long-term Debt-non current Seller Note	96,000	100,000
Other Long-term Debt -Non-current	69,572	104,671
Total	\$ 197,900	246,116

Principal payments on other long-term debt related to equipment financing for the next five years are as follows:

2006	\$ 9,964
2007	10,676
2008	11,441
2009	11,270
2010 and thereafter	0

Convertible Notes Payable-Failure to Deliver Shares

In March of 2005, and pursuant to our settlement with investors for our failure to deliver shares of our common stock upon their conversion of debentures during 2004 (See above), we issued convertible notes payable that accrue interest at 8% and are payable in equal monthly installments including interest beginning April 1, 2006. In the event of our default on the notes the interest rate increased to 15%.

Conversion Rights

The notes are convertible, in all or in part, into shares of our common stock at any time at an initial conversion price of \$0.20, subject to certain anti-dilution provisions that include the sale of assets, reclassifications of our equity, issuance of additional shares and stock splits and dividends.

Borrower's Repayment Election.

The Monthly Amount due on a repayment date shall be paid by the Company at its election (i) in cash at the rate of 102% of such monthly amount otherwise due on such repayment date within three (3) business days of the applicable repayment date, or (ii) with registered, freely transferable common stock at an applied conversion rate equal to eighty-five percent (85%) of the average of the five (5) lowest closing bid prices of the common stock as reported by Bloomberg L.P. for the twenty (20) trading days preceding such repayment date.

On April 1, 2005, we failed to make our first payment on the convertible debentures and were in default of the terms of the convertible notes. At March 31, 2006 and March 31, 2005 we classified the following notes payable as current liabilities as follows:

	Mar. 31, 2006	Mar. 31, 2005
Convertible Notes Payable	\$ 11,141,149	14,580,935
Promissory notes	2,475,000	500,000
Total	\$ 13,616,149	15,080,935

NOTE 8 - SUBSEQUENT EVENTS

During the April, 2006, the Company issued 100,416,720 shares of common stock valued at \$1,129,674 in connection with the partial conversion of principal and interest of certain convertible debentures (see Note 7).

Litigation

On April 18, the U.S. District Court for the District of Arizona issued an Order in the matter of *Faber v. Parent*, which accomplished the following:

- (i) it stayed the implementation of the Consent Resolutions purportedly passed on December 9, 2004 to effect the attempted takeover of the Company by Stephen Parent's group;
- (ii) it denied Defendants' motion for an Order removing seven current directors from Goldspring's Board; and
- (iii) it granted GoldSpring's Motion for an Order requiring the law firm of Gust Rosenfeld PLC to provide a detailed accounting of the unreturned portion of the \$250,000 retainer (namely \$166,096.62), given to Gust Rosenfeld PLC.

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 March 31, 2006, as well as our future results.

Overview

We are a North American precious metals mining company with an operating gold and silver test mine in northern Nevada. Our Company was formed in mid-2003, and we acquired the Plum property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. During 2005, we acquired additional properties around the Plum project in Northern Nevada, expanding our footprint and creating opportunities for exploration. We are an emerging company, looking to build on our success through the acquisition of other mineral properties in North America with reserves and exploration potential that can be efficiently put into near-term production. Our objectives are to increase production; increase reserves through exploration and acquisitions; expand our footprint at the Plum mine; and maximize cash flow and the return for our shareholders.

We are starting to experience the benefits of the operational improvement program that we initiated in 2005, including our first reported net profit for the first quarter of 2006. This program began with a complete review of every facet of the operation to insure maximum efficiency. We have nearly completed our review of the various processes and have implemented several changes, which have increased efficiencies. Most recently, we have made the decision to take over our mining operations, which were previously performed by an outside contractor. We plan to have our mining operation in place by the end of May 2006. Based on our mine plan and internal calculations, we anticipate that taking over the mining operations will reduce our gold production costs by \$40 per ounce, resulting in a production cost of less than \$350 per ounce.

Our first quarter production has been hampered by inclement weather in northern Nevada in late 2005 and early 2006. Our Plum Mine received fourteen inches of rain between mid-December and the end of February, filling our leach ponds, including our one hundred year storm pond, nearly to capacity. The high levels of effluents in the ponds prevented us from adding additional reagents to our leach pads. Because we were unable to add new material to the pad and put it under leach, we made the decision to cease mining operations in early-January. Our team at the mine did an excellent job, in a challenging situation, to insure the environmental integrity of our operation. The team worked closely with the regulatory authorities throughout this process. In order to resume mining and processing with the necessary reagents, the level of effluents in the ponds must be reduced through evaporation. We expect to resume normal operations by the end of May 2006.

Our Company has been involved in litigation with its founder since late 2004 when he attempted a takeover of the Company through a purported consent solicitation in violation of federal securities laws. On April 18, 2006, the United States District Court for the District of Arizona issued an Order Granting a Preliminary Injunction, which stayed the implementation of the Consent Resolutions purportedly passed on December 9, 2004. This preliminary injunction removes a serious distraction that has plagued our Company since December 2004. We believe this matter is now behind us, allowing us to redirect our human and capital resources to our current mining operations and further potential opportunities to continue to expand our business. The Court's decision also provides clarity to our investors and shareholders regarding control and direction of the Company. With the Federal Court nearly litigation behind us, we are actively seeking financing to meet our working capital needs and fuel our growth

Results of Operations and Operational Plan

Our Plum Mine, which is located in Storey County, Nevada, went into test mining production in late third quarter 2004. We have not established reserves on this exploration project. Therefore, all of our activities on this property are considered test mining or exploratory in nature. One of our top priorities is to improve efficiencies and increase test mining production at our Plum Mine. In March 2005, we initiated a program to improve the operational efficiency of our mining operation. As part of this program, we consolidated our corporate office with the Plum Mine office. We also made improvements to our processing plant and took over crushing operations from our third-party contractor, reducing costs and increasing our control over the crushing process. Our improvement program continued throughout the year. In November 2005, we retained licensed mining engineer Jim Golden to conduct a comprehensive review of all aspects of the Plum Mine operation, including the overall mine plan, with the objective of further improving efficiency, increasing production, and reducing costs. Mr. Golden has over twenty years of experience in the mining industry, including ten years with Peter Kiewit's mining division, where he was a district manager. Since 1990, Mr. Golden has owned his own consulting firm, where he has provided consulting services throughout the world for over fifty mining companies. We have also assembled a team of professional mining consultants, who are recognized experts in their respective disciplines, to assist in the process of reviewing the operation. The team includes Jeff Butwell, a metallurgist; John Esser, an electrical engineer; Dennis Anderson, a geologic, soils and environmental engineer; and Stephen Russell, a geologist with twenty-five years of comprehensive mining experience. Furthermore Mine Development and Associates of Reno, Nevada is expected to complete a detailed mine plan and a reserve report for the Plum Mine by the end of May 2006. Recent changes have included revising the mine plan to reflect the current higher gold prices; adding various efficiencies in the processing area; and re-positioning personnel to maximize overall performance. The mine plan and reserve report are the culmination of a twelve-month undertaking by our Company and Mine Development & Associates. In a further effort to reduce costs and increase efficiencies, we have decided to take over the mining operations from our outside contractor. We expect to complete this transition by the end of May 2006. Based on our mine plan and internal calculations, we anticipate that taking over the mining operations will reduce our gold production costs by \$40 per ounce, resulting in a production cost of less than \$350 per ounce.

Our first quarter production has been hampered by inclement weather in northern Nevada in late 2005 and early 2006. Our Plum Mine received fourteen inches of rain between mid-December and the end of February, filling our leach ponds, including our one hundred year storm pond, nearly to capacity. The high levels of effluents in the ponds prevented us from adding additional reagents to our leach pads. Because we were unable to add new material to the pad and put it under leach, we made the decision to cease mining operations in early-January. Our team at the mine did an excellent job, in a challenging situation, to insure the environmental integrity of our operation. The team worked closely with the regulatory authorities throughout this process. In order to resume mining and processing with the necessary reagents, the level of effluents in the ponds must be reduced through evaporation. We expect to resume normal operations by the end of May 2006.

We also plan to continue our exploration program in 2006. In March 2006, we retained Larry Martin, a registered geologist, to oversee our exploration program at the Plum Mine and in the Comstock Lode district. Mr. Martin has over twenty-five years of diverse geological and exploration experience in the mining industry. He has worked for several major mining enterprises, including Peter Kiewit, where he served as manager of geological services. We have allocated a budget of \$500,000 to explore and develop our claims at the Plum Mine. We expect to begin exploration in summer of 2006. We intend to target our exploration toward replenishing and expanding our mineralized material inventory at our existing mine and toward developing new mineral properties. 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.

In December 2005, we initiated a review of the invoices of our mining contractor. Specifically, we sought to reconcile the volume of material for which we were billed with the volume of material that was actually mined. We used an outside surveyor to conduct a comprehensive analysis of bank cubic yards mined. The results of the survey indicated that we had been over-billed by over \$450,000. We met with the mining contractor in early 2006 to discuss this issue and presented our proposed billing adjustment. The mining contractor has contracted an engineering firm to perform an independent analysis of the data generated from our surveys to determine the accuracy of our calculations. We anticipate a resolution of this issue by June of 2006.

In March 21, 2006, we completed the sale of our Canadian subsidiaries, Clear Hills Iron Ltd. and Peace River Energy Ltd., to CaNev Resources, a Canadian Corporation. The assets divested in the transaction were 32 industrial (non-energy) mineral permits covering approximately 800 square miles in northern Alberta, Canada. We sold these assets for CDN\$1.1 million, of which CDN\$100,000 was cash with the balance being paid through a three percent production royalty. The gain on the sale of these mineral permits is reflected in Other Income (Expense) under Gain on sale of fixed assets on the Consolidated Statement of Operations.

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 property. 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 property is located in Pershing County, Nevada. It covers a total of 310 acres and consists of 17 unpatented lode claims and one placer claim. We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. We have not completed any exploration activity on the project. The property includes an open pit, mineralized material in a stockpile and waste dumps. We are actively exploring opportunities to bring this project into production. The options being considered include finding a joint venture partner or selling the property and retaining a production royalty.

Comparative Financial Information

	Quarter ended March 31, 2006	Quarter ended March 31, 2005	Difference
Revenue	\$ 537,806	\$ 512,091	25,715
Reclamation, Exploration and Test Mining Expense	425,776	1,269,721	(843,945)
General and administration	180,073	323,433	(143,360)
Consulting and Professional Service	154,817	465,088	(310,271)
Liquidated Damages	-0-	1,874,633	(1,874,633)
Interest Expense	749,646	255,109	494,537
Net Loss	(\$1,017,133)	(\$3,738,159)	\$ 2,721,026

During the first quarter of 2006, we sold 992 ounces of gold at an average price of \$ 542 per ounce compared to gold sales of 1,192 ounces at an average price of \$ 429 per ounce for the same period of 2005. Our gold production for the first quarter 2006 was adversely impacted by the weather conditions from mid December 2005 through February 2006. The accumulation of precipitation during this period filled our leach ponds, including our one hundred year storm pond, to capacity preventing us from adding additional reagents to our leach pads, which slowed production. In early January, we ceased mining since we could not efficiently leach any new material further reducing production. In spite of these unusual challenges, we were able to continue processing solution and producing gold during this period.

Test Mining Expenses in the first quarter of 2006 were \$ 843,945 less than the first quarter of 2005. In early 2005 we initiated an operational improvement program. This program focused on enhancing the efficiencies of each of our processes as well as insuring we had the right personnel. We believe we are now starting to experience the benefits of the operational improvement program. We expect to realize further improvements in the upcoming months.

General and administrative expenses for the three months ended March 31, 2006 and March 31, 2005 were \$180,073 and \$323,433, respectively. The \$143,360 decrease in G&A is based primarily upon the relocation of our Corporate office to the Plum Mine and the consolidation of functions reducing the number of Corporate employees.

The \$310,271 variance in consulting and professional services in the first quarter 2006 when comparing the same period in 2005 reflects a reduction in legal fees. In the first quarter 2005, we expensed approximately \$180,000 of legal fees incurred by our Company's founder during his purported takeover of our Company in December 2004.

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

Interest expense for the first quarter of 2006 was \$494,537 higher than the same quarter of 2005. This variance reflects the issuance of \$6,885,184 interest bearing note issued in March 2005 pursuant to the November 2004 subscription agreement. Specifically, 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. The incremental interest recognized on this note for the first quarter 2006 was approximately \$300,000. At March 31, 2006, our Company had approximately \$14,266,028 of outstanding debt bearing an average interest rate of 15%, and at March 31, 2005, our Company had approximately \$15,270,472 of outstanding debt bearing an average interest rate of 12%.

Liquidity and Capital Resources

We are actively seeking additional capital to meet our working capital needs and to grow our business. 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 2005, we raised an aggregate of \$1,575,000 through five financing transactions. In the first quarter 2006, we completed two additional financing transaction, which provided us with \$400,000 in funding. While this additional funding may meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. We have yet to realize an operating profit at our Plum Mine location. As disclosed in the report of our independent registered public accounting firm in our financial statements included in this Form 10-KSB for the year ended December 31, 2005, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

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

In the first quarter of 2006, we completed additional financing transactions, which provided us with \$400,000 in funding. In consideration for the funding, we issued promissory notes with a term of ninety (90) days and an interest rate of sixteen percent (16%) per annum. The default interest rate on the note is twenty-two percent (22%). The funds were used for working capital and general corporate purposes.

In April 2006, we obtained a financing commitment in the amount of \$1.8 million from a group of our existing investors. We expect to close the transaction in the next 90 days, subject to completion of certain closing conditions. Upon closing, the funds will be deployed to expand our Plum Mine operation in northern Nevada. Specifically, we plan to take over the mining operations from our contract miner and have committed \$500,000 to conduct further

exploration at the Plum property. We believe, with this additional financing, that we have sufficient resources to operate throughout the next twelve months.

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.

Item 3. Controls and Procedures

Based on the most recent evaluation, which was completed within 90 days of the filing of this Form 10-QSB, 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 March 31, 2006 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.

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, Mr. Doyle and Ecovery, Inc. have filed answers and generally denied the allegations of 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 defendants (the Parents, the Gaschs, and the Medhis) seeking to reverse the Court's March 17 Order. On April 21, 2005, the Gaschs moved to dismiss their appeal. On June 10, 2005, the defendants (the Parents) filed their opening appellate brief. The plaintiffs filed their response brief on August 16, 2005. The defendants' response brief was filed on October 3, 2005. The 9th Circuit Court of Appeals held oral arguments on the appeal on January 12, 2006.

On January 23, 2006, the United States Court of Appeals for the Ninth Circuit issued a Memorandum disposition in the matter of *Faber v. Parent*, stating, "We reverse the district court's decision to grant the preliminary injunction for failure to comply with the requirements of Rule 52(a). However, the injunction shall remain intact for a reasonable time not to exceed 90 days from the date on which this disposition is filed or until an earlier date on which the district court enters a succeeding preliminary injunction. During this time, the district court may issue a new preliminary injunction if, after undertaking the required analysis and making the necessary findings, it deems such an injunction appropriate." The preliminary injunction, issued by the district court on February 15, 2005, had reinstated GoldSpring's Board of Directors as it existed prior to Mr. Parent's takeover of GoldSpring on December 10, 2004. The Memorandum disposition also stated that, "If, after further proceedings, the district court does not order a new preliminary injunction, we leave it to the district court to restore, as near as possible, the situation that would have existed if the preliminary injunction had never been granted."

On April 18, 2006, the United States District Court for the District of Arizona issued an Order Granting a Preliminary Injunction in favor of the Plaintiff in the matter of Faber et al. v. Parent et al., No. CV 04-2960-PHX-EHC. The Order accomplished the following:

- (i) it stayed the implementation of the Consent Resolutions purportedly passed on December 9, 2004 to effect the attempted takeover of the Company by Stephen Parent's group;
- (ii) it denied Defendants' motion for an Order removing seven current directors from Goldspring's Board (which would have had the effect of allowing Parent to rescind the refinancing transaction dated November 30, 2004 with the Merriman investors); and
- (iii) it granted GoldSpring's Motion for an Order requiring the law firm of Gust Rosenfeld PLC to provide a detailed accounting of the unreturned portion of the \$250,000 retainer (namely \$166,096.62), given to Gust Rosenfeld PLC by Mr. Parent in December 2004.

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.

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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 jointly represented by 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

In connection with our acquisition of the Plum Mining Company, LLC, we issued a promissory note to the seller for \$1 million (the balance of the purchase price). At March 31, 2006, the outstanding balance on the Note was \$400,000. We are in default on this Note.

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

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

On July 15, 2005, we completed a financing transaction, which provided us with \$800,000 in funding. In consideration for the financing, we 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. On September 28, 2005, we completed another financing transaction under the same terms and conditions as the July 2005 financing. The September 2005 financing provided us with \$200,000 in funding. We have not made the monthly interest payments on these notes, and thus we are in default. The default interest rate on these notes is 22%.

During the fourth quarter of 2005, we completed three financing transactions, which provided us with a total of \$575,000 in funding. In consideration for the financing, we issued promissory notes with a term of ninety (90) days and an interest rate of sixteen percent (16%) per annum. The default interest rate on the notes is twenty-two percent (22%). These notes had a maturity date of May 15, 2006, at which time all outstanding principal and interest became due.

We are working with the above-referenced note holders to cure the defaults. The above referenced notes have a total value of approximately \$11,141,149 at March 31, 2006. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligations, there can be no assurance that such funding would be available.

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

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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 March 31, 2006 (Unaudited)
- Consolidated Statement of Operations for the three-month periods ended March 31, 2006 and 2005 (Unaudited)
- Consolidated Statement of Cash Flows for the three-month periods ended March 31, 2006 and 2005 (Unaudited)
- Notes to Financial Statements

(2) Exhibits filed as part of this Report:

Exhibit

Number Exhibit

31.1 Certification of Chief Executive Officer and 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

(b) Reports filed on Form 8-K during the quarter ended March 31, 2006:

- (1) A Report on Form 8-K was filed with the Securities and Exchange Commission on February 1, 2006 under Item 8.01 relating to the United States Court of Appeals for the Ninth Circuit's issuance of a Memorandum disposition in the matter of *Faber v. Parent*, reversing the Preliminary Injunction which had been granted by the United States District Court for the District of Arizona ordering the reinstatement of the Board of Directors of the Company as it existed prior to December 10, 2004. We filed an amendment to this Report on Form 8-K on February 9, 2006, which clarified the terms of the Court's disposition.
- (2) A report on Form 8-K was filed with the Securities and Exchange Commission on March 22, 2006 under Item 8.01 related to our sale of our Canadian subsidiaries, Clear Hills Iron Ltd. And Peace River Energy Ltd. To CaNev Resources, a Canadian Corporation.

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.

GOLDSRING, INC.
(Registrant)

Date: May 15, 2006

By: /s/ Robert T. Faber

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

By: /s/ Robert T. Faber

Name: Robert T. Faber
Title: Chief Financial Officer