

GOLDSRING INC  
Form 10KSB  
April 16, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 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  
(State or other jurisdiction of  
incorporation or organization)

7389  
(Primary Standard  
Industrial  
Classification Code  
Number)

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

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

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

Yes  No

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

State issuer's revenues for the most recent fiscal year: \$1,225,013

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State the aggregate market value of the voting and non-voting common equity held by non-affiliates based on the average bid and asked price as of March 30, 2007: \$4,349,600

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: 1,178,751,631 shares of Common Stock, \$0.000666 Par Value, as of March 30, 2007

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**Statement Regarding Forward-Looking Statements**

*The statements contained in this report on Form 10-KSB that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward looking statements also include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper, diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold*

*exploration, including risks of diminishing quantities or grades of reserves; and contests over our title to properties. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1, "Description of Business - Risk Factors."*

## PART I

### Item 1. Description of Business

#### *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. Beginning in 2005, we started acquiring 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.

2006 has been a year filled with challenges for our Company. In addition to trying to bring our Plum Mine operation into profitable production, we have continued to experience the costs and distractions of the litigation between the Company and its founder that has impacted our Company since December 2004. The litigation continued through 2006 as a major drain on our scarce capital and human resources. (See Part I, Item 3, "Legal Proceedings" for a detailed discussion.) In March 2007, we reached a settlement with our former director putting behind us this legal matter and allowing our management to focus on building a successful, profitable operation. We are actively seeking financing to meet our working capital needs and fuel our growth. If we are unable to secure such financing, we may be unable to continue as a going concern.

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

| Name          | Location                       | Type  |
|---------------|--------------------------------|---|
| Plum Mine     | Storey and Lyon County, Nevada | Gold and silver lode claims- open pit test mining |
| Como          | Lyon County, Nevada            | Gold and silver lode claims                       |
| Gold Canyon   | Lyon County, Nevada            | Placer gold claims                                |
| Spring Valley | Lyon County, Nevada            | Placer gold claims                                |
| Big Mike      | Pershing County, Nevada        | Lode and Placer copper claims                     |

Our Plum exploration project is located between Carson City and Virginia City, Nevada, about 30 miles southeast of Reno in an area known as American Flat. Our Gold Canyon and Spring Valley placer claims are located five miles south of our Plum property, in Lyon County, Nevada. Our Big Mike Copper property is located approximately two hours east of Reno near Winnemucca, Nevada.

Our Plum exploration activities include open pit gold and silver test mining. As defined by SEC Industry Guide 7, we have not yet established any proven or probable reserves at this project. Therefore, all of our activities are considered test mining and exploratory in nature. Test mining at Plum commenced in the third quarter of 2004. We have not as yet explored or developed our Como claims. We also have not completed any exploratory activities on our Gold Canyon, Spring Valley, or Big Mike properties. We have not established reserves on any of these properties. Therefore, there can be no assurance that we will be able to produce sufficient gold to cover our investment and

operating costs.

***Employees***

We approximately have 18 employees, including our managers, administrative staff, engineers, geologists, lab technicians, and process operators. We use consultants with specific skills to assist with various aspects of our operation, including project evaluation, due diligence, and acquisition initiatives.

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### ***Principal Markets***

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

### ***Government Regulation***

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

### ***Reclamation***

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

The Nevada Revised Statutes and regulations promulgated thereunder by the Nevada State Environmental Commission and the Nevada Division of Environmental Protection, Bureau of Mining and Reclamation require a surety bond to be posted for mining projects to assure we will leave the site safe, stable and capable of providing for a productive post-mining land use. Pursuant to the approved Reclamation Plan for Billie the Kid, we posted a surety bond in the amount of \$553,000, of which \$377,000 was in the form of a cash deposit and the balance was secured from a surety agent.

### ***Competition***

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

### ***Officers of our Company***

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

Jim Golden has served as the Company's COO since May 2006. Mr. Golden, who is a licensed mining engineer, 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. A graduate of Montana Tech, Mr. Golden has owned his own consulting firm since 1990, where he has provided consulting services throughout the world for over 50 mining companies.



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

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

During the SEC review process of the registration statement we filed in connection with the March Offering, we learned that our founder and former Chief Executive Officer may have misrepresented the value of certain mineral properties that his company sold to us in a June 2003 transaction. Our discussions with the SEC led to our decision to restate our annual and quarterly SEC filings to reflect our reevaluation of the value of those mineral properties. This reevaluation led to an investigation into the activities of our founder. On November 9, 2004, we filed a lawsuit in Maricopa County (Arizona) Superior Court against Stephen B. Parent and four other defendants, together with their spouses, and Ecovery, Inc. (See - Legal Proceedings). In essence, the complaint alleges that Stephen Parent misrepresented the value of certain placer mining claims that his company, Ecovery, sold to us in 2003 in exchange for approximately 99,000,000 shares of our stock and \$100,000 in cash; that Ecovery no longer had good title to the mining claims when they were sold to us; that Mr. Parent and the other named defendants conspired to defraud us out of approximately 24,000,000 shares of our stock; and that Mr. Parent misappropriated more than \$300,000 in company funds.

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

As a result, and effective November 30, 2004, we restructured the private placement transaction. In connection with the restructuring, we exchanged the 21,739,129 shares of common stock and the 21,739,129 warrants to purchase shares of common stock issued to the investors in the March Offering for 8% convertible notes in the aggregate principal amount of approximately \$11.1 million and four-year warrants to purchase 27,750,000 shares of common stock at an exercise price of \$0.20 per share, subject to anti-dilution adjustments. The principal amount of the convertible notes consists of the original \$10.0 million investment plus approximately \$1.1 million of accrued contractual penalties associated with the delay in effectiveness of our registration statement covering the resale of the shares of common stock held by the investors. The restructured subscription agreement also permitted the convertible note holders to convert their notes into common stock at a discounted conversion rate if they delivered their notices of conversion within 20 trading days of the November 30, 2004 restructuring closing date.

On or about December 9, 2004, Mr. Parent and fellow directors Jerrie W. Gasch and Purnendu K. Rana Medhi purportedly seized control of our company. They attempted to remove the remaining seven members of our board and announced their intention not to honor the restructured subscription agreement of November 30, 2004, which both Mr. Medhi and Mr. Gasch had approved. On December 21, 2004, Mr. Parent caused our pending registration statement to

be withdrawn from SEC consideration, resulting in further delays to the registration process and additional liquidated damages. Mr. Parent remained in control of our corporate office until February 16, 2005 (See - Legal Proceedings). During his period of purported control of our company, Mr. Parent refused to honor our obligations under either the March 2004 subscription agreement or the restructured November 2004 subscription agreement.

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

Under the terms of the November 2004 subscription agreement, convertible note holders have the right to a mandatory redemption payment in the event we are prohibited or otherwise fail to deliver shares of our common stock to converting note holders. The mandatory redemption payment is calculated as an amount equal to 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 convertible note in the aggregate amount of \$6,885,184 for the 29,573,803 shares and accrued interest.

On December 20, 2004, we received notice from holders of approximately \$500,000 of convertible notes payable of their intention to convert into shares of our common stock. As a result, we recorded the issuance of 4,243,791 shares on December 20, 2004. We were required to deliver certificates representing unrestricted, 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.

Our November 2004 subscription agreement required us to file a registration statement with the Securities and Exchange Commission no later than December 30, 2004 and to cause the registration statement to be declared effective no later than February 14, 2005. As discussed above, our former Chief Executive Officer withdrew our pending registration statement and did not submit a new registration statement during the period of his purported control of our company. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Pursuant to the terms of the Subscription Agreement, the damages may be paid in cash or in unrestricted common stock. If paid in unrestricted common stock, we were required to pay 200% of the cash penalty. During 2005, we incurred approximately \$4.5 million of liquidated damages related to our failure to have an effective registration statement. Because we did not have the cash or free-trading stock to pay the liquidated damages, we reached a settlement agreement with the investors to pay the liquidated damages in restricted common stock valued at \$0.03 per share. During 2005, we paid liquidated damages totaling \$3 million for the period from December 30, 2004 through July 26, 2005 through the issuance of approximately 99 million shares common stock. We filed the SB-2 registration statement in April 2005. The registration statement was declared effective on October 3, 2005. For the period from July 27, 2005 until October 3, 2005, we incurred liquidated damages of \$880,000. Because we anticipate paying these damages through the issuance of stock, we have recognized an additional expense of \$880,000, reflecting the 200% stock payment provision of the subscription agreement.

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. The funds were used for working capital and general corporate purposes.

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. The funds were used for working capital and general corporate purposes.

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%). The funds were used for working capital and general corporate purposes.

The aggregate total of 2005 financing transactions was \$1,575,000.

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In February 2006, we completed an additional financing transaction, which provided us with \$250,000 in funding. In consideration for the funding, we issued a promissory note 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 March 2006, we completed an additional financing transaction, which provided us with \$150,000 in funding under the same terms and conditions as the February 2006 financing.

***\$2,220,000 Convertible Debenture Financing***

On August 23 - 24, 2006, the Company formally entered into an agreement with several investors to loan \$1,900,000 to the Company. In March 2007, the Company amended the agreement increasing the loan amount to \$2,200,000. The notes evidencing the loan bear interest at the rate of 12% per annum, payable monthly on the first of each month commencing October 1, 2006, along with 1/24 of the principal amount of such notes on each repayment date and were issued between May 18, 2006 - August 24, 2006, with the second quarter notes being treated as "bridge debt" until the loan agreement was formally signed.. The notes are also convertible into Common Stock at a 50% discount to market until a registration statement registering the Common Stock underlying the notes is effective and at a 15% discount to market thereafter. As additional consideration, the investors are to be issued a total of 20,000,000 warrants to purchase common stock at exercise prices based upon the same formulas as for conversion of the amounts due under the notes. The notes are secured by a lien on the assets of Goldspring, Inc. and a pledge of all of the interests in Plum Mine Special Purpose, LLC, which owns the Plum Mine operation. In connection with this loan, one of the lenders has agreed to acquire the existing mortgage on the Plum Mine property from the Brockbank Trust . As of December 31, 2006, \$1,300,000 of the \$2,200,000 has been funded by the investors.

The notes issued are as follows:

- Winfield Debenture Payable issued 5/18/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 6/21/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 8/23/06 in the face amount of \$300,000
- Longview Debenture Payable issued 8/24/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 12/12/06 in the face amount of \$100,000

The aggregate total of 2006 financing transactions was \$1,700,000.

***Risk Factors***

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

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

We have incurred substantial losses since our inception, and we are currently experiencing a cash flow deficiency from operations. Our current cash flow and capital resources are limited, and we may require additional funds to pursue our business. We may not be able to secure further financing in the future. If we are not able to obtain

additional financing on reasonable terms, we may not be able to execute our business strategy, conduct our operations at the level desired, or even to continue business.

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

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

***Inability to raise sufficient funds to increase growth***

Our recent financings have only provided capital to continue existing operations but not to continue significant exploration and growth. Without the ability to attract sufficient amounts of capital at any one time, it is unlikely that we can achieve profitability in the foreseeable future.

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

We have invested capital in various mineral properties and projects in North America where we may not have conducted sufficient exploration and engineering studies to minimize the risk of project failure to the extent that is typical in the mining industry. Our mineral projects involve high risks because we have not invested substantial sums in the characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, and economic analysis to the same extent that other mining companies might deem reasonable. Standard industry practice calls for a mining company to prepare a formal mine plan and mining schedule and have these documents reviewed by a third party specialist. We do not have a formal mine plan that has been reviewed by a third party specialist. Because we have not established proven or probable reserves, there can be no assurance that we will be able to produce sufficient gold to recover our investment and operating costs.

***Our corporate officers lack sufficient technical training and mining experience.***

Our corporate officers lack technical training and experience in operating a mine. Although Jim Golden, our COO, is a licensed mining engineer, with substantial mining experience we may lack sufficient qualified support personnel to effectively manage our mining operation. Without sufficient training or experience in all areas, our corporate officers may not be fully aware of all of the specific requirements related to working within the mining industry. The decisions of our corporate officers may not take into account standard engineering or managerial approaches that operating mining companies commonly use. Consequently, our operations, earnings, and ultimate financial success could suffer irreparable harm due to corporate officers' lack of experience in the mining industry.

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

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

***We do not have proven or probable reserves, and there is no assurance that the quantities of precious metals we produce will be sufficient to recover our investment and operating costs.***

Our success depends on our ability to produce sufficient quantities of precious metals to recover our investment and operating costs. We do not have proven or probable reserves. There can be no assurance that our exploration activities will result in the discovery of sufficient quantities of mineralized material to lead to a commercially successful operation.

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

Mineral exploration, particularly for gold and other precious metals, is highly speculative in nature, involves many risks, and frequently is nonproductive. There can be no assurance that our exploration and acquisition activities will be

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



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

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

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

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

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

We plan to pursue opportunities to acquire properties with gold mineralized material or reserves with exploration potential. The price that we pay to acquire these properties will be influenced, in large part, by the price of gold at the time of the acquisition. Our potential future revenues are expected to be derived from the production and sale of gold from these properties or from the sale of some of these properties. The value of any gold reserves and other mineralized material, and the value of any potential mineral production therefrom, will vary in direct proportion to variations in those mineral prices. The price of gold has fluctuated widely as a result of numerous factors beyond our control. The effect of these factors on the price of gold, and therefore the economic viability of any of our projects, cannot accurately be predicted. Any drop in the price of gold would negatively affect our asset values, cash flows, potential revenues, and profits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Robert Faber, Chief Executive Officer, President and acting-Chief Financial Officer is important to our success. If he becomes unable or unwilling to continue in his present position, our business and financial results could be materially negatively affected.

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

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

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

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

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

At December 31, 2006, we had outstanding 958,938,940 shares of common stock. In addition, we had outstanding convertible notes and various common stock purchase warrants. At December 31, 2006, these notes and warrants were convertible into or exercisable for a total of approximately 3.002 billion additional shares of our common stock, subject to further anti-dilution provisions.

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

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

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

## **Item 2. Description of Property**

### ***Plum (Billie the Kid/Lucerne)***

#### *Location, Access, and Title to the Property*

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

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

We have a second mineral exploration and mining lease agreement with the Donovan Silver Hills, LLC dated September 1, 1999 covering seven patented claims and 13 unpatented claims located in Storey and Lyon Counties. The lease remains in effect for as long as exploration, development, mining, or processing operations are conducted on a continuous basis, without a lapse of activity for more than 180 days. We pay a royalty to the lessor amounting to the greater of \$500 per month or a royalty percentage of the Net Smelter Returns. The royalty percentage varies based on the price of gold: 3% if gold is less than \$400 per ounce, 4% if gold is at least \$400 per ounce but less than \$500 per ounce, and 5% if gold is \$500 or greater per ounce. We are also responsible for payment and filing of annual maintenance fees, if any, and taxes for these claims.

In addition to the mineral leases, we hold 20 unpatented mineral claims in Storey County, hold eight unpatented mineral claims in Lyon County, and own title to 40 acres of land in Storey County. The W. Hughes Brockbank Living Trust has a lien against and a security interest in these unpatented mineral claims and the 40 acres of land pursuant to a Deed of Trust dated October 31, 2003, entered into with W. Hughes Brockbank Living Trust. The Deed of Trust was granted to secure a promissory note, dated October 31, 2003, in the amount of \$1 million for the balance of the purchase price for the property. The non-interest bearing promissory note requires ten quarterly payments of \$100,000 each. As of December 31, 2006, the outstanding balance of the note was \$250,000.

*Present Condition of Property and Work Performed*

We have not completed extensive characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, or economic analysis on the Plum mineral assets. We have not established reserves on this property. Therefore, any activity we perform on the property is considered exploratory in nature. Part of our exploration includes operating a test mine. The purpose of the test mine is to determine our capital and operating costs, metallurgical recoveries, and other mining factors, and demonstrate that we can make a profit over and above our capital and operating costs.

*Description of Equipment and other Infrastructure Facilities*

During 2006 GoldSpring used a mining contractor to dig material from the Billie the Kid pit. The contractor used 50 ton Euclid haul trucks to haul the mineralized materials from the Billie the Kid/Lucerne open pit to the crushing and process facility located in the northeast corner of the property. The mineralized material is crushed, screened, and agglomerated in a self-contained portable crushing plant. The mineralized material is fed to a plate feeder by a front-end loader. The feeder provides a steady feed to a Pioneer jaw crusher where material is crushed to -3" minus. Prior to agglomeration, 10 pounds of Type II Portland Cement is added for every ton of mineralized material and metered on to the pug mill feed conveyor which is then transported to the leach pads. A dilute cyanide solution is then applied to the mineralized material on the leach pads. Pregnant solution is accumulated from the leach pad and is then pumped to the 300 gpm Merrill-Crowe recovery plant. The resulting zinc precipitate collected in the presses is dried and smelted on the property using an electric furnace to produce gold dore.

Our third-party contract mining company owns and provided the haul trucks, front end shovel, loaders and blade. We own the Merrill-Crowe gold precipitation plant, the agglomerator, crushers, screen, water truck, generators, dozers, cement silo with a screw feeder, and conveyors. The Merrill-Crowe gold precipitation plant and the mineral processing equipment are less than two years old. The total book value of our equipment associated with the Billie the Kid and the Lucerne facilities is approximately \$1,500,000.

*Power Utilization at the Plum Property:*

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

*Geology, Structure and Mineralization*

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



*Mineralized Material*

We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. Therefore, all of our activities are considered exploratory in nature. Part of our exploration includes operating a test mine. The purpose of the test mine is to determine our capital and operating costs, metallurgical recoveries, and other mining factors, and demonstrate that we can make a profit over and above our capital and operating cost. These test mining activities may provide us with sufficient data to prepare a formal mine plan and establish reserves.

As evidenced by the 213 reverse circulation drill holes drilled between 1990 and 1993, and aided by surface geological mapping, sampling, mine modeling and metallurgical testing, we believe the present Lucerne Pit contains estimated gold-bearing mineralized material of approximately 910,000 tons at 0.043 opt gold with a potential strip ratio of 0.6:1. The Billie the Kid pit contains 134,000 tons grading 0.047 opt gold with a potential stripping ratio of 1.5:1.

It should also be noted that the above-stated tonnage of mineralized material does not reflect waste dilution during test mining or metal value losses in processing. Nor do the above numbers reflect the drilling and exploration work performed in 2004, 2005 and 2006. We have established procedures to recalculate and update our mineral inventory annually, and we plan do so in 2007.

#### *Future Exploration Potential*

We are conducting an exploration program to test surface mineral targets as well as deep underground bonanza targets by using geological mapping, geochemical/geophysical investigations and drilling.

#### *Gold Canyon and Spring Valley (Placer Claims)*

We own a 100% interest in the 25 federal unpatented placer claims located in Lyon County, Nevada known as the Gold Canyon and Spring Valley claims. The 25 unpatented placer claims cover approximately 850 acres and are located about 30 miles southeast of Reno and four miles south of Virginia City, Nevada. We have not completed any exploration activity on the Gold Canyon or Spring Valley properties. The properties are undeveloped and do not contain any open-pit or underground mines. We have not established any proven or probable reserves on the mineral claims. All of our activities associated with these properties are exploratory in nature. We purchased an RMS-Ross processing plant in late 2003 for use on these properties. The processing plant is stored at our Plum Mining property in American Flat, Nevada. We have no plans to begin test mining operations on these properties in the near-term.

#### *The "Big Mike" Copper Project*

We own a 100% interest in the 17 unpatented lode claims and one placer claim covering a total of 310 acres in Pershing County, Nevada that comprise the Big Mike Copper property. The Big Mike Copper property is located approximately 32 miles south of Winnemucca in Pershing County, Nevada. Access to this site is available by way of Grass Valley Road, a county maintained paved and gravel road, for 30 miles and then two miles on a BLM gravel road. The property is situated at an elevation of 5,000 to 5,500 feet. We have not completed any exploration activity or undertaken any geologic, engineering or economic studies on the Big Mike Copper property. The property includes an open pit, mineralized material in a stockpile, and waste dumps. As the site was previously mined, there are also roads and graded areas on the property. Two cased water wells with rights to two cubic feet per second are also present on the property.

At the end of September 2006, the Company entered into a ten year lease with a local company, controlled by a former GoldSpring director, for a 10 year lease of all of its mining claims for its Big Mike copper mine. The Lease calls for a \$50,000 initial payment, to cover royalty payments due for the first two years of the lease term. Additionally, the lessee must pay Goldspring \$75,000 when a production permit is awarded, and \$125,000 when commercial mining commences. Additionally, the lessee agrees to a work expenditure of \$300,000 for environmental and engineering matters in the first twelve months of the lease. During the term of the lease, Goldspring will also receive a production royalty of between 3% and 5% of net returns from copper mining, dependent on the price of copper.

### **Item 3. Legal Proceedings**

#### ***The State Court Case***

##### *Background*

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.

#### ***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.

#### ***The Settlement***

On March 23, 2007, the Company and related parties entered into a global settlement with Stephen B. Parent, Goldspring's former CEO and related parties, which brought final resolution in the following cases: (i) GoldSpring, Inc. v. Stephen B. Parent, et al., Case No. CV2004-021755, Maricopa County Superior Court ("the State Court Action"); and (ii) Robert T. Faber, et al. v. Stephen B. Parent, et al., Case No. CV04-2960-PHX-EHC, the United States District Court, District of Arizona ("the Federal Court Action"). The settlement agreement contains the following terms, among others:

- Settlement without payment of cash consideration by either side in either case
- Dismissal of both the Federal Court Action and the State Court Action with prejudice (including dismissal by Parent of the pending Federal Court appeal)
- Mutual release of liability and covenants not to sue
- Invalidity of Consent Resolutions described in the Federal Court's April 18, 2006 Order Granting Preliminary Injunction in the Federal Court Action and agreement by the Parents and Medhi further to not further contest or challenge in any way the election of GoldSpring's current Board of Directors or any of the actions taken by GoldSpring's Board of Directors or its officers at any time up to the date of this Agreement, including, but not limited to the approval and/or implementation of the November 30, 2004 financial restructuring.

No admission of liability by any party to either the Federal Court Action or the State Court Action

*Degerstrom Suit*

On April 11, 2006, in the First Judicial District Court, Storey County, Nevada, wherein N.A. Degerstrom, Inc. ("Degerstrom") sued the Company on various counts, including breach of contract, *quantum merit*, foreclosure of mechanic's lien, and assertion that the Degerstrom lien has priority over all other liens on the Plum Mine property. The plaintiff claims damages in excess of \$806,000 plus interest. The Company subsequently answered the Complaint and counterclaimed for breach of contract, breach of implied covenant of good faith and fair dealing, and for negligence, alleging damages in excess of \$10,000.

The lawsuit arises out of a dispute as to how much the Company owes the Degerstrom for services provided. Pursuant to a December 27, 2005 agreement, the parties agreed that the amount to be paid by the Company to Degerstrom would be subject to volume reconciliation by aerial survey. According to Company management, pursuant to prepared aerial and ground surveys, the Company has been over-billed for amounts of ore and waste which have been hauled by Degerstrom. The results of the surveys are to be presented to the Court as evidence as to the Company's affirmative defenses that it does not owe the amounts claimed by Degerstrom.

Additionally, the Company has what it believes to be valid counterclaims, arising out of activities of Degerstrom, including, but not limited to, negligent crushing of ore, failure to accurately measure and charge for waste and ore hauled and crushed, and failure to adequately man the job and provide sufficient equipment. These activities, as alleged in the Counterclaim, resulted in damages to the Company in excess of \$10,000.

Degerstrom filed a mechanic's lien against the property of Plum, and at the time of filing of the Complaint, filed and recorded a lis pendens against the property of Plum based upon Degerstrom's claim. Counsel has advised management that the Company may challenge the lis pendens by asserting that the lis pendens is based upon a mechanic's lien which is overstated. However, the time is not ripe for the bringing of such a motion until the survey results have been presented and analyzed. Alternatively, Plum may request the court to establish a bond in an amount that would secure, pending litigation, Degerstrom's mechanic's lien claim. Typically, the court would charge one and one-half times the amount it found to be the mechanic's lien claim.

Management believes the ground and aerial surveys support a much lower amount of ore and waste which was processed by Degerstrom than is alleged in the Complaint, and if the Court accepts that volume reconciliation would be as established by such surveys (as is established in the written documentation between the parties), there is a reasonable probability of success in reduction, if not elimination, of the amount claimed by Degerstrom. However, until the Court rules on the method of volume reconciliation, it is premature to predict the probability of likelihood of success on the merits.

During the third quarter and fourth quarters, there was little activity in this lawsuit, other than the beginning of discovery by the parties.

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

In Mid-November 2006, the Company completed its consent solicitation in lieu of a Special Meeting of Shareholders, as set forth in its Definitive Schedule 14A, filed on August 24, 2006 with the Commission. The matters voted upon and passed in the consent solicitation were: (i) increase in authorized shares to 4,000,000,000 shares, (ii) approval of 2006 stock option and incentive plan, (iii) reincorporation to Nevada, and (iv) reverse stock split.

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

**PROPOSAL #1: INCREASE IN AUTHORIZED SHARES**

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|                   | FOR         | AGAINST     | ABSTAIN   | TTL SHS VOTED |
|-------------------|-------------|-------------|-----------|---------------|
| <b>TOTAL</b>      | 290,625,009 | 121,421,168 | 3,526,375 | 415,572,552   |
| <b>PERCENTAGE</b> | 69.93%      | 29.22%      | 0.85%     | 100.00%       |

**PROPOSAL #2: APPROVAL OF 2006 STOCK OPTION AND INCENTIVE PLAN**

|                   | FOR         | AGAINST     | ABSTAIN   | TTL SHS VOTED |
|-------------------|-------------|-------------|-----------|---------------|
| <b>TOTAL</b>      | 296,332,723 | 111,339,159 | 7,900,670 | 415,572,552   |
| <b>PERCENTAGE</b> | 71.31%      | 26.79%      | 1.90%     | 100.00%       |

**PROPOSAL #3: NEVADA REINCORPORATION**

|                   | FOR         | AGAINST    | ABSTAIN   | TTL SHS VOTED |
|-------------------|-------------|------------|-----------|---------------|
| <b>TOTAL</b>      | 364,143,994 | 41,743,259 | 9,685,299 | 415,572,552   |
| <b>PERCENTAGE</b> | 87.62%      | 10.04%     | 2.33%     | 100.00%       |

**PROPOSAL #4: REVERSE STOCK SPLIT**

|                   | FOR         | AGAINST     | ABSTAIN   | TTL SHS VOTED |
|-------------------|-------------|-------------|-----------|---------------|
| <b>TOTAL</b>      | 658,679,131 | 114,103,222 | 2,974,623 | 775,756,976   |
| <b>PERCENTAGE</b> | 84.91%      | 14.71%      | 0.38%     | 100.00%       |

Of the four proposals passed, only the first proposal has been effected pursuant to an Amendment to the Company's Articles of Incorporation, attached as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Commission on November 28, 2006.

**PART II**

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

**PRICE RANGE OF COMMON STOCK**

Our common stock is currently traded on the OTC Bulletin Board under the symbol "GSPG:OB". The following table sets forth, for the periods indicated, the high and low inter-dealer closing prices per share of our common stock as reported on the Over The Counter Bulletin Board, without retail mark-up, mark-down or commission and may not represent actual transactions. As of December 31, 2006, we had over 3,000 holders of our common stock. That does not include the number of beneficial holders whose stock is held in the name of broker-dealers or banks. At December 31, 2006, we had 958,938,940 shares of common stock outstanding.

The following table sets forth the high and low bid prices for our common stock since for the last two years.

| Year | Quarter | High | Low  |
|------|---------|------|------|
| 2005 | First   | 0.23 | 0.06 |
| 2005 | Second  | 0.10 | 0.03 |
| 2005 | Third   | 0.11 | 0.05 |
| 2005 | Fourth  | 0.06 | 0.02 |
| 2006 | First   | .043 | .014 |
| 2006 | Second  | .02  | .009 |
| 2006 | Third   | .014 | .003 |
| 2006 | Fourth  | .012 | .003 |

### EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information with respect to our common stock that may be issued upon the exercise of stock options under our incentive stock option plans as of December 31, 2006

| Plan Category   | (a)<br>Number of<br>Securities to Be<br>Issued Upon<br>Exercise of<br>Outstanding<br>Options,<br>Warrants,<br>and Rights | (b)<br>Weighted-Average<br>Exercise Price<br>of Outstanding<br>Options,<br>Warrants,<br>and Rights | (c)<br>Number of<br>Securities<br>Remaining<br>Available for<br>Future Issuance<br>Under Equity<br>Compensation<br>Plans (Excluding<br>Securities Reflected<br>in Column (a)) |
|---|--|--|---|
|   |  |  |   |
| Equity Compensation Plans Approved by Stockholders        | 0  | \$ 0   | 0   |
| Equity Compensation Plans Not Approved by<br>Stockholders | 0  | \$ 0   | 0   |
| Total   | 0  | \$ 0   | 0   |

### Dividend Policy

We have never declared or paid any dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will depend upon our financial condition, operating results, capital requirements and other factors the board of directors deems relevant, including the provisions of any applicable credit agreements. We are restricted from declaring dividends under the terms of the senior secured convertible debentures.

### Item 6. Management's Discussion and Analysis or Plan of Operations

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





The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the year ended December 31, 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. Beginning in 2005, we started acquiring 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 return for our shareholders.

We started to reap 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 are currently being performed by an outside contractor. Although we had planned to have our mining operation completely in place by the end of May 2006, delays in financing have dictated that we rely on contract mining assistance through the end of November. However, when we do take over operations, based on our mine plan and internal calculations and reach our targeted production numbers, we expect our production cost to be less than \$400 per ounce.

Our first quarter production was 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 ceased 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. The necessary level was reached in late June.

Due to the six month cessation of mining activities, there was little ore to produce in the second quarter, and therefore revenues in the second quarter were markedly lower in the first quarter, when there was still a supply of ore, mined in the fourth quarter of 2005, to process and sell. A lapse in mining typically leads to reduced saleable materials in the next fiscal quarter as the mining-processing-sales cycle is approximately 60 - 90 days. However, as mining activities recommenced in late June, the fourth quarter should yield comparatively favorable revenue results. The third quarter marked the recommencement of mining activities. Recent focus has including (i) ramping up of mining and processing on a continued basis; (ii) stockpiling of ore for processing during inclement weather; and (iii) transition preparation for December 1, 2006 takeover of mining operations by the Company's own staff. Furthermore, significant fluid management steps have been taken to avoid another shut down of activity as experienced during the first five months of 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. The litigation was recently settled, thus the Company can focus resources on production and exploration.

Our Company has also been sued by a former mining contractor to the Company for unpaid services in an alleged amount exceeding \$800,000. The Company's management believes that the results of aerial and ground survey (the method stated in writings between the parties for measuring amounts owed to Degerstrom for services rendered) demonstrate that Degerstrom's claims are substantially overstated and will present the survey results to the Court to substantiate its position. Further detail is set forth in Item 1 of Part II below.

There are also several specific risk factors attendant to operation of a gold mining concern which bear repetition here due to events in 2006, although this is not intended to be a full blown list of risk factors (and we encourage you to review our October 11, 2005 424(b)(3) for a further discussion of risk factors attendant to our business):

- Weather - As disclosed in this Quarterly Report, excessive rains has caused material delays in our ability to operate as high levels of water in our leaching ponds and flooding have prevented us from being able to leach materials, a necessary part of the gold production process. Excessive snows, which can occur in the area in which the Plum Mine is located, would also hamper mining as the Plum Mine is an open pit mine.
- Current Political Instability in the Middle East - Commodities such as gold tend to have widely fluctuating markets, and the current problems in areas such as Lebanon and Iraq, which are causing much political and economic instability internationally, may very well be a contributing factor to the volatile gold market.

### ***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 in 2005 was 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 the third quarter 2007. 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. We believe that these improvements, including the updated mine plan, will improve our overall performance at the Plum Mine.

Inclement weather in northern Nevada in late 2005 and early 2006 presented a challenge to our Plum Mine operation. The mine received twelve inches of rain between mid-December and mid-January, filling our leach ponds nearly to capacity. This situation impacted our ability to mine and to process at our normal capacity, thus decreasing production. 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 mid-January, we ceased mining operations to allow time for our crew to stabilize the leach ponds and the processing plant. During this interruption from mining, we took steps to implement additional process modifications identified through our operational improvement plan.

We also plan to continue our exploration program in 2007 if capital resources allow. 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 hoped to begin exploration in late spring or early summer of 2006 but due to inability to obtain a large enough capital investment this exploration is substantially delayed into sometime in 2007 (assuming the Company is able to secure adequate financing). 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.

We held our Annual Shareholders' Meeting on October 26, 2005 in Carson City, Nevada. At that meeting, our shareholders elected the following slate of five independent directors: Christopher L. Aguilar, Todd S. Brown, Stanley A. Hirschman, Bill Nance and Rex L. Outzen. The new Board of Directors elected Mr. Aguilar to serve as Chairman of the Board. The Board also re-elected Robert Faber to serve as our Company's President and Chief Executive Officer and elected Lisa Boksenbaum to serve as our Company's Secretary and Treasurer. Lisa Boksenbaum resigned from her position with our company in February 2006. All of the Board members, other than Bill Nance, resigned effective March 23, 2007.

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 \$400,000. 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 anticipated a resolution of this issue by June of 2006 but due to continuing litigation this issue is still outstanding.

In all 2006 proved to be another challenging year for the Company although some advances were made. In the first half of 2006, weather conditions caused delays which prevented any ore processing and mining activity ceased. Additionally, the Company undertook substantial corrective measures to ensure proper water management and continuation of mining activity during future heavy moisture periods. Additionally, an aerial survey was completed which confirmed over billing by Degerstrom Inc, the former mining contractor. The Company took advantage of the "down time" in 2006 to improve the overall operation of the mine with solid results in reduced costs and improved efficiencies.

In the second half of 2006, a new mining contractor was hired, with mining activities recommencing in July 2006 and again suspended in early 2007.

On a positive note is the resolution, without liability to the Company, of the 2 and ½ year legal battle with a former director thus stopping the ongoing drain of litigation on the human and financial resources of the Company. To date, over \$1,000,000 was spent on legal fees in that litigation. With the litigation settled, all diverted human and financial resources can be refocused on operations.

Among the exploration and business development activities to be completed in 2007 are:

- Ore body delineation
- Reserve definition
- Completion of reserve report
- Development of comprehensive mine plan from exploration results
- Increase of ore reserves
- Augment ability to mine and operate at more efficient levels
- Intent to cease mine operations until completion of the exploration program and related reports
- Expansion of existing footprint in the Comstock region

- Identification of properties outside the Comstock region to complement Comstock activities and increase Company 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.

**Comparative Financial Information**

|   | <b>Twelve Months<br/>ended December<br/>31, 2006</b> | <b>Twelve Months<br/>ended December<br/>31, 2005</b> | <b>Difference</b> |
|---|--|--|-------------------|
| Revenue   | \$ 1,255,013   | \$ 2,632,112   | (\$1,377,099)     |
| Reclamation, Exploration and Test Mining Expenses | 1,985,611  | 4,810,643  | (2,825,032)       |
| Consulting & professional                         | 468,951  | 773,390  | (304,439)         |
| Liquidated Damages                                | -0-  | 4,619,144  | (4,619,144)       |
| Interest Expense                                  | 2,779,420  | 2,309,479  | 469,941           |
| Net Loss  | (\$4,416,527)  | (\$11,353,026)                                       | \$ 6,936,499      |

We sold 2,116 ounces of gold at an average price of \$ 578 per ounce during the twelve-month period ended December 31, 2006 compared to gold sales of 6,073 ounces at an average price of \$ 433 per ounce during the same period of 2005. Weather conditions in late 2005 and during the first quarter 2006 precluded mining activity during the first half of 2006. Mining and processing resumed in June 2006. Reclamation, Exploration and Test Mining Expenses were \$ 2,825,032 less for the year ended December 31, 2006 than for the year ended December 31, 2005. This 2006 expense decrease reflects the suspension of mining activity during the first six months due to weather conditions and the efficiency improvements arising from the business improvement program. Our Company is an Exploration Stage enterprise as defined by SEC Industry Guide 7, and, in accordance with SEC Industry Guide 7, infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

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.

|  | <b>Quarter ended<br/>December 31,<br/>2006</b> | <b>Quarter ended<br/>December 31,<br/>2005</b> | <b>Difference</b> |
|--|--|--|-------------------|
| Revenue  | \$ 263,908                                     | \$ 476,574                                     | (\$212,666)       |
| Reclamation, Exploration and Test Mining Expense | 601,384  | 940,327  | (338,943)         |
| Consulting & professional                        | 63,613   | 55,614   | (7,999)           |
| Liquidated Damages                               | -0-  | -0-  | -0-               |

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|                  |               |               |            |
|------------------|---------------|---------------|------------|
| Interest Expense | 681,769       | 703,892       | (22,122))  |
| Net Loss         | (\$1,211,206) | (\$1,700,313) | \$ 489,107 |

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During the fourth quarter of 2006 we sold 337 ounces of gold at an average price of \$ 545 per ounce compared to gold sales of 875 ounces at an average price of \$ 545 per ounce during the same period of 2005. Reclamation, Exploration and Test Mining Expenses in the fourth quarter of 2006 were \$338,943 less than the fourth quarter of 2005. This variance reflects less mining in 2006 resulting from the shift from an outside mining contractor to perform mining activity in-house. As detailed above, our Company is an Exploration Stage enterprise and in accordance with Industry Guide 7 infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

At December 31, 2006, our Company had approximately \$13,025,000 of outstanding debt bearing an average interest rate of 15% of which \$8,843,000 originated from our November 2004 restructuring of the March 2004 private placement. (See "Recent Financing Events and Restructuring," above) Prior to November 2004, our Company had no outstanding interest-bearing debt.

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

We recognize that our cash resources are limited. Our continued existence and plans for future growth depend on our ability to obtain the capital necessary to operate, through the generation of revenue or the issuance of additional debt or equity. In 2006, we raised an aggregate of \$1,700,000 through three financing transactions. Through April 14, 2007, we received \$700,000 in additional 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 Company. 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, 2006, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

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 December 31, 2006, the outstanding balance on the Note was \$250,000. 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 15%.

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%.

We are working with the above-referenced note holders to cure the defaults. The above referenced notes have a total value of approximately 11,726,000 at December 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.

### ***\$2,200,000 Convertible Debenture Financing***

On August 23 - 24, 2006, the Company formally entered into an agreement with several investors to loan \$1,900,000 to the Company. In March 2007, the Company amended the agreement increasing the loan amount to \$2,200,000. The notes evidencing the loan bear interest at the rate of 12% per annum, payable monthly on the first of each month commencing October 1, 2006, along with 1/24 of the principal amount of such notes on each repayment date and were issued between May 18, 2006 - August 24, 2006, with the second quarter notes being treated as "bridge debt" until the loan agreement was formally signed.. The notes are also convertible into Common Stock at a 50% discount to market until a registration statement registering the Common Stock underlying the notes is effective and at a 15% discount to market thereafter. As additional consideration, the investors are to be issued a total of 20,000,000 warrants to purchase common stock at exercise prices based upon the same formulas as for conversion of the amounts due under the notes. The notes are secured by a lien on the assets of Goldspring, Inc. and a pledge of all of the interests in Plum Mine Special Purpose, LLC, which owns the Plum Mine operation. In connection with this loan, the lender has agreed to acquire the existing mortgage on the Plum Mine property from the Brockbank Trust . To date, \$1,300,000 of the \$2,200,000 has been funded by the investors.

The notes issued are as follows:

- Winfield Debenture Payable issued 5/18/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 6/21/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 8/23/06 in the face amount of \$300,000
- Longview Debenture Payable issued 8/24/06 in the face amount of \$300,000
- Winfield Debenture Payable issued 12/12/06 in the face amount of \$100,000

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

|  | <b>Dec. 31, 2006</b> | <b>Dec. 31, 2005</b> |
|--|----------------------|----------------------|
| Convertible Debentures Payable-Investors                     | \$ 2,600,812         | \$ 6,220,409         |
| Convertible Debentures Payable- Mandatory Redemption payment | 5,886,059            | 6,885,184            |
| Convertible Debentures Payable- Failure to Deliver Shares    | 356,,348             | 356,348              |
| Convertible Notes Payable - 2006                             | 1,300,000            | -0-                  |
| <b>Total</b>   | <b>\$ 8,843,219</b>  | <b>\$ 13,461,941</b> |



The aggregate proceeds from 2006 financing transactions totaled \$1,700,000.

We expect to initiate a comprehensive exploration program during 2007 and expand our footprint at our Plum mine. We intend to finance our exploration project, acquisitions and any other capital expenditures in 2007 through the issuance of debt or equity instruments to existing shareholders and other parties. There can be no assurance that such financing will be available.

#### **Item 7. Financial Statements**

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

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

Not applicable.

#### **Item 8A. Controls and Procedures**

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

We have identified conditions as of December 31, 2006 that we believe are significant deficiencies in internal controls that include: 1) a lack of segregation of duties in accounting and financial reporting activities; and 2) the lack of a sufficient number of qualified accounting personnel. We have taken corrective measures to remedy these deficiencies. These measures include our consolidation of the corporate office with the office at the Plum Mine operation. This consolidation has provided the corporate office with additional accounting personnel. We believe that the presence of additional qualified accounting personnel will allow us to effectively correct the lack of segregation of duties in accounting and financial reporting activities.

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

We do not believe that these deficiencies constitute material weaknesses because of (i) additional accounting support through the office consolidation with Plum Mine and (ii) the use of outside consultants.

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

There have been no changes during the quarter ended December 31, 2006 in our Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) and 15d-15(d) that have material affected, or are reasonably likely to materially affect, our internal controls over our financial reporting.

### Item 8B. Other Information

Not applicable.

### Item 9. Directors and Executive Officers of the Registrant

The following table sets forth certain information regarding our directors and officers:

| Name             | Age | Position  |
|------------------|-----|---|
| William J. Nance | 63  | Director  |
| Robert T. Faber  | 46  | President, Chief Executive Officer, and acting- Chief Financial Officer |
| Jim Golden       | 48  | Chief Operating Officer   |

*William J. Nance* has been a director of our Company since October 2005. Mr. Nance is a Certified Public Accountant and private consultant to the real estate and banking industries. He is also President of Century Plaza Printers, Inc. Mr. Nance is also a Director of Intergroup Corporation, Santa Fe and Portsmouth.

#### Executive Officers

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

Jim Golden has served as the Company's COO since May 2006. Mr. Golden, who is a licensed mining engineer, 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. A graduate of Montana Tech, Mr. Golden has owned his own consulting firm since 1990, where he has provided consulting services throughout the world for over 50 mining companies.

#### Information Relating to Corporate Governance and the Board of Directors

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Mr. William J. Nance is an independent director, as "independence" is defined by Nasdaq, because they have no relationship with us that would interfere with their exercise of independent judgment.

Our Board of Directors has established three standing committees: an Audit Committee, a Compensation Committee, and a Nominations and Corporate Governance Committee. A majority of the members of our Audit Committee, Compensation Committee, and Nominations and Corporate Governance Committee consist of independent directors.

Our Board of Directors has adopted charters for the Audit, Compensation, and Nominations and Corporate Governance Committees describing the authority and responsibilities delegated to each committee by the board. Our Board of Directors has also adopted Corporate Governance Guidelines, a Code of Conduct, and a Code of Ethics for the CEO and Senior Financial Officers. The charters of our Audit, Compensation, and Nominations and Corporate Governance Committees; our Corporate Governance Guidelines, Code of Conduct, and Code of Ethics for the CEO and Senior Financial Officers, and any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC or Nasdaq regulations are available in print to any stockholder requesting a copy in writing from our corporate secretary at our executive offices set forth in this filing.

We regularly schedule executive sessions at which independent directors meet without the presence or participation of management. The presiding director of such executive session rotates among the Chairs of the Audit Committee, Compensation Committee, and the Nominations and Corporate Governance Committee.

Interested parties may communicate with our Board of Directors or specific members of our Board of Directors, including our independent directors and the members of our various board committees, by submitting a letter addressed to the Board of Directors of GoldSpring, Inc. c/o any specified individual director or directors at the address listed herein. Any such letters are sent to the indicated directors.

#### *The Audit Committee*

The purpose of the Audit Committee is to oversee the financial and reporting processes of our company and the audits of the financial statements of our company and to provide assistance to our Board of Directors with respect to the oversight of the integrity of the financial statements of our company, our company's compliance with legal and regulatory matters, the independent auditor's qualifications and independence, and the performance of our company's independent auditor. The primary responsibilities of the Audit Committee are set forth in its charter and include various matters with respect to the oversight of our company's accounting and financial reporting process and audits of the financial statements of our company on behalf of our Board of Directors. The Audit Committee also selects the independent auditor to conduct the annual audit of the financial statements of our company; reviews the proposed scope of such audit; reviews accounting and financial controls of our company with the independent auditor and our financial accounting staff; and reviews and approves transactions between us and our directors, officers, and their affiliates.

The Audit Committee currently consists of Mr. Nance, who is an independent director of our company under Nasdaq rules as well as under rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The Board of Directors has determined that Mr. Nance (whose background is detailed above) qualifies as an "audit committee financial expert" in accordance with applicable rules and regulations of the SEC. Mr. Nance serves as the Chairman of the Audit Committee.

#### *The Compensation Committee*

The purpose of the Compensation Committee includes determining, or recommending to our Board of Directors for determination, the compensation of the Chief Executive Officer and other executive officers of our company and discharging the responsibilities of our Board of Directors relating to compensation programs of our company. Currently, there are no members of the Compensation Committee.

#### *The Nominations and Corporate Governance Committee*

The purposes of the Nominations and Corporate Governance Committee include the selection or recommendation to the Board of Directors of nominees to stand for election as directors at each election of directors, the oversight of the selection and composition of committees of the Board of Directors, the oversight of the evaluations of the Board of Directors and management, and the development and recommendation to the Board of Directors of a set of corporate governance principles applicable to our company. The Nominations and Corporate Governance Committee currently consists of Mr. Nance.

The Nominations and Corporate Governance Committee will consider persons recommended by stockholders for inclusion as nominees for election to our Board of Directors if the names, biographical data, and qualifications of such persons are submitted in writing in a timely manner addressed and delivered to our company's corporate secretary at the address listed herein. The Nominations and Corporate Governance Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors. As discussed above, the members of the Nominations and Corporate Governance Committee are independent, as that term is defined by Nasdaq.

### Item 10. Executive Compensation

The following table sets forth, for the periods indicated, the total compensation for services provided to us in all capacities by our Chief Executive Officer. No other executive officer received aggregate compensation exceeding \$100,000 during 2005.

#### SUMMARY COMPENSATION TABLE

| Name and Principal Position  | Year | Annual Compensation(1) |            | Long-Term Compensation Awards     |                             | TOTAL      |
|--|------|------------------------|------------|-----------------------------------|-----------------------------|------------|
|  |      | Salary (\$)            | Bonus (\$) | Securities Underlying Options (#) | All Other Compensation (\$) |            |
| Robert T. Faber(2)(3)(5)<br>President and Chief Executive Officer; | 2006 | \$ 147,500             | \$ 0       | 0                                 | \$ 0                        | \$ 147,500 |
| Chief Financial Officer  | 2005 | \$ 120,000             | \$ 0       | 0                                 | \$ 0                        | \$ 120,000 |
| Jim Golden, COO (4)(5)   | 2004 | \$ 115,000             | \$ 10,000  | 0                                 | \$ 0                        | \$ 125,000 |
|  | 2006 | \$ 150,000             | \$ 0       | 0                                 | \$ 0                        | \$ 150,000 |

(1) Executive officers received certain perquisites, the value of which did not exceed the lesser of \$50,000 or 10% of that officer's salary and bonus during fiscal 2004.

(2) Mr. Faber has served as President and Chief Executive Officer since September 2004 and Chief Financial Officer since June 2003.

(3) \$32,500 of Mr. Faber's 2006 salary has not yet been paid. We intend to pay this amount in 2006.

(4) Mr. Golden has served as Chief Operating Officer since October 2006. Prior to October 2006, Mr. Golden served as a consultant to our Company

(5) \$32,500 of Mr. Faber's 2006 salary and \$32,500 of Mr. Golden's 2006 salary remains unpaid.



## Stock Options

We did not grant stock options to directors, officers, or employees in 2006. There were no shares of common stock underlying unexercised stock options at December 31, 2006. This information is summarized hereinbelow.

### OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END FOR 2006

| Name and Principal Position | Option Awards   |   |   |                       | Stock Awards           |   |  | Market Value or Payout Value of Unearned Shares, or Other Rights That Have Not Vested |
|-----------------------------|---|---|---|-----------------------|------------------------|---|--|---|
|                             | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Number of Securities Underlying Unexercised Options (#) | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested | Market Value of Stock or Other Rights That Have Not Vested |   |
| Robert T. Faber             | -   | -   | -   | -                     | -                      | -   | -  | -   |
| Jim Golden                  | -   | -   | -   | -                     | -                      | -   | -  | -   |

## Employment Agreements

Effective as of November 27, 2006, the Company entered into an Executive Employment Agreement with Robert T. Faber, its CEO. The Agreement carries a three year term from August 15, 2006 and is retroactive to that date. During the term of the Agreement, Mr. Faber's base salary shall be \$180,000 per year, with such increases as may be determined by the Company's Compensation Committee, with a bonus not to exceed 50% of the base salary then in effect. Also pursuant to the Agreement, Mr. Faber shall be granted 80,000,000 stock options currently with exercise price per the terms of the Company's 2006 Stock Option and Incentive Plan. In the case of a termination not for cause, Mr. Faber shall continue to receive his full base salary for a period of one year from date of termination and upon a sale of the Company, he shall receive a one time lump sum payment equal to 100% of his then in effect base salary, with all options vesting immediately.

## Compensation of Directors

During the fiscal year ended, our Directors were/were not given compensation for services rendered as Directors. The following table summarizes any compensation given in 2006:

### DIRECTOR COMPENSATION TABLE

| Name              | Fees Earned or Paid in Cash | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|-------------------|-----------------------------|--------------|---------------|--|---|------------------------|-------|
| William Nance     | -                           | -            | -             | -                                      | -   | -                      | -     |
| Stanley Hirschman | -                           | -            | -             | -                                      | -   | -                      | -     |
| Rex Outzen        | -                           | -            | -             | -                                      | -   | -                      | -     |

|                     |   |   |   |   |   |   |   |
|---------------------|---|---|---|---|---|---|---|
| Christopher Aguilar | - | - | - | - | - | - | - |
| Todd Brown          | - | - | - | - | - | - | - |

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

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 31, 2007 by (1) each person who is known by us to be the beneficial owner of more than five percent of our issued and outstanding shares of common stock, (2) each of our directors and executive officers, and (3) all directors and officers as a group.

| Name of Beneficial Owner  | Shares Beneficially Owned<br>Number(1) | Percent(2) |
|---|--|------------|
| <b>Directors and Executive Officers:</b>                        |  |            |
| Robert T. Faber (1) (2)   | 2,054,683                              | .01%       |
| Jim Golden  |  |            |
| Christopher L. Aguilar (8)                                      | 157,775                                | 0.01%      |
| Todd S. Brown (9)   |  | 0.0%       |
| Stanley A. Hirschman (8)  |  | 0.0%       |
| Bill Nance  |  | 0.0%       |
| Rex Outzen  |  | 0.0%       |
| All directors and executive officers as a group (six persons)   | 2,212,458                              | .01%       |
| <b>5% Shareholders:</b>   |  |            |
| John W. Winfield(4)   | 3,493,417,808                          | 70.4%      |
| Longview Equity Fund and Longview International Equity Fund (5) | 899,598,926                            | 22.6%      |
| Capital Ventures International (6)                              | 1,507,142,796                          | 7.5%       |
| Longview Fund, L.P. (7)   | 832,012,020                            | 19.2%      |

(1) Includes, when applicable, shares owned of record by such person's minor children and spouse and by other related individuals and entities over whose shares of common stock such person has custody, voting control, or power of disposition. Also includes shares of common stock that the identified person had the right to acquire within 60 days of May 1, 2006 by the exercise of vested stock options.

(2) Mr. Faber has purchased additional shares through a Section 10(b)(5) share purchase program.

(3) The percentages shown include the shares of common stock that the person will have the right to acquire within 60 days of March 31, 2006. In calculating the percentage of ownership, all shares of common stock which the identified person will have the right to acquire within 60 days of March 31, 2006 upon the conversion of convertible notes or the exercise of warrants or stock options are deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of shares of common stock owned by any other person.

- (4) .Includes shares beneficially owned by John W. Winfield, Santa Fe Financial Corp., Portsmouth Square, Inc. and InterGroup Corporation. Mr. Winfield’s address is 820 Moraga Drive, Los Angeles, California 90049.
- (5) The address for Longview is c/o Redwood Grove Capital Management, 600 Montgomery Street, 44<sup>th</sup> Floor, San Francisco, California 94111.
- (6) The address for Capital Ventures International is c/o Heights Capital Management, 101 California St., Suite 3250, San Francisco, CA 94111.
- (7) The address for Longview Fund, L.P. is c/o Viking Asset Management, LLC, 600 Montgomery Street, 44<sup>th</sup> Floor, San Francisco, California 94111.
- (8) Was a director as of December 31, 2006 but resigned effective as of March 23, 2007

Resigned as a Director on \_December 11, 2006

(9)

**Item 12. Certain Relationships and Related Transactions**

Not applicable.

**Item 13. 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:

|  |        |
|--|--------|
| Report of Independent Registered Public Accounting Firm  | F - 2  |
| Consolidated Balance Sheet as of December 31, 2006   | F - 3  |
| Consolidated Statements of Operations for the years ended December 31, 2006 and 2005                     | F - 5  |
| Consolidated Statements of Changes in Stockholders' Equity for the year ended December 31, 2006 and 2005 | F - 6  |
| Consolidated Statements of Cash Flows for the year ended December 31, 2006 and 2005                      | F - 7  |
| Notes to Consolidated Financial Statements   | F-8-26 |

(2) Exhibits filed as part of this Report:

| Exhibit Number | Exhibit  |
|----------------|--|
| 3.1            | Borrower Security Agreement  |
| 23.1           | Consent of Jewett, Schwartz Wolfe & Associates   |
| 31.1           | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. |
| 31.2           | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. |

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

Current Report on Form 8-K dated October 12, 2006, relating to amendment to Bylaws

Current Report on Form 8-K dated November 28, 2006, relating to amendments to Certificate of Incorporation and Employment Contract with Robert T. Faber

Current Report on Form 8-K dated December 12, 2006, relating to resignation of Todd Brown as a Director.

#### **Item 14. Principal Accountants Fees and Services**

The aggregate fees billed to our company by Jewett Schwartz, for the fiscal years ended December 31, 2005 and December 31, 2006, are as follows:

|                    | <b>2005</b> | <b>2006</b> |
|--------------------|-------------|-------------|
| Audit fees         | \$ 32,000   | \$ 37,500   |
| Audit-related fees | \$ 14,000   | \$ 11,700   |
| Tax fees           | \$ 0        | \$ 10,000   |
| All other fees     | \$ 0        | \$ 0        |

#### **Audit Committee Pre-Approval Policies**

The charter of our Audit Committee provides that the duties and responsibilities of our Audit Committee include the pre-approval of all audit, audit-related, tax, and other services permitted by law or applicable SEC regulations (including fee and cost ranges) to be performed by our independent auditor. Any pre-approved services that will involve fees or costs exceeding pre-approved levels will also require specific pre-approval by the Audit Committee. Unless otherwise specified by the Audit Committee in pre-approving a service, the pre-approval will be effective for the 12-month period following pre-approval. The Audit Committee will not approve any non-audit services prohibited by applicable SEC regulations or any services in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported by the Internal Revenue Code and related regulations.

To the extent deemed appropriate, the Audit Committee may delegate pre-approval authority to the Chairman of the Audit Committee or any one or more other members of the Audit Committee provided that any member of the Audit Committee who has exercised any such delegation must report any such pre-approval decision to the Audit Committee at its next scheduled meeting. The Audit Committee will not delegate to management the pre-approval of services to be performed by the independent auditor.

Our Audit Committee requires that our independent auditor, in conjunction with our Chief Financial Officer, be responsible for seeking pre-approval for providing services to us and that any request for pre-approval must inform the Audit Committee about each service to be provided and must provide detail as to the particular service to be provided. Our Audit Committee Chair and Audit Committee Financial Expert is Bill Nance.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Goldspring, Inc.

/s/ Robert T. Faber

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Robert T. Faber  
President, Chairman and Director  
(Principal Executive Officer and  
Principal Financial Officer)

Date: April \_12\_, 2007

Pursuant to the requirements of Section 12 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.

/s/ Robert T. Faber

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Robert T. Faber  
President, Chairman and Director  
(Principal Executive Officer and  
Principal Financial and Accounting Officer)

Date: April \_12\_, 2007

**GOLDSRING, INC.**  
**INDEX TO FINANCIAL STATEMENTS**

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Report of Independent Registered Public Accounting Firm

To the board of directors and shareholders of  
Goldspring, Inc.

We have audited the accompanying consolidated balance sheet of Goldspring, Inc. as of December 31, 2006 and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the years ended December 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Goldspring, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the years then ended 2006 and 2005 in conformity with accounting principles generally accepted in the United States.

These financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has operating and liquidity concerns, has incurred in net losses approximating \$27,000,000 as of December 31, 2006. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, Management is proposing to raise any necessary additional funds through loans and additional sales of its common stock. There is no assurance that the Company will be successful in raising additional capital.

/s/ Jewett, Schwartz, Wolfe & Associates

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Jewett, Schwartz, Wolfe & Associates

Hollywood, Florida  
April 12, 2007

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**GOLDSRING, INC.**  
**CONSOLIDATED BALANCE SHEETS**

**December 31, 2006**

**ASSETS**

Current Assets:

|   |                |
|---|----------------|
| Prepaid expenses and other current assets | 24,607         |
| Deferred financing fees, net              | 774,397        |
| <b>Total Current Assets</b>               | <b>799,004</b> |

**PLANT, EQUIPMENT, AND MINERAL PROPERTIES**

|                                     |                     |
|-------------------------------------|---------------------|
| Mineral properties                  | 1,669,837           |
| Plant and Equipment                 | 758,142             |
| <b>Total Property and Equipment</b> | <b>2,377,979</b>    |
| Reclamation deposit                 | 377,169             |
| <b>Total Assets</b>                 | <b>\$ 3,554,152</b> |

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

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**GOLDSRING, INC.**  
**LIABILITIES AND STOCKHOLDERS' DEFICIENCY**

December 31, 2006

**CURRENT LIABILITIES**

|   |                   |
|---|-------------------|
| Bank overdraft  | 15,491            |
| Accounts payable  | 519,671           |
| Accrued expenses  | 1,115,174         |
| Accrued liquidated damages                              | 1,913,418         |
| Accrued interest payable                                | 1,613,825         |
| Derivative Liability                                    | 398,312           |
| Lease obligations                                       | 29,943            |
| Convertible debentures                                  | 10,143,218        |
| Promissory Notes  | 2,475,000         |
| Other notes payable & current portion of long-term debt | 406,958           |
| <b>Total Current Liabilities</b>                        | <b>18,631,011</b> |

**LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES**

|   |                   |
|---|-------------------|
| Long-term debt, net of current portion                      | 23,336            |
| Long-term lease obligation, net of current portion          | 45,231            |
| Long-term reclamation liability                             | 553,190           |
| <b>Total long-term debt and other Long-term Liabilities</b> | <b>621,757</b>    |
| <b>Total Liabilities</b>                                    | <b>19,252,768</b> |

**STOCKHOLDERS' DEFICIT**

|  |                     |
|--|---------------------|
| Common stock, \$.000666 par value, 3,9500,000,000 shares authorized, and 958,938,940 shares issued and outstanding | 638,653             |
| Additional paid-in capital   | 11,603,560          |
| Accumulated deficit - Prior years  | (23,524,302)        |
| Accumulated deficit - Current year   | (4,416,527)         |
| <b>Total Stockholders' Deficiency</b>  | <b>(15,698,616)</b> |
| <b>Total Liabilities and Stockholders' Deficiency</b>  | <b>\$ 3,554,152</b> |

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

**GOLDSRING, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | Years Ended<br>December 31, |              |
|---|-----------------------------|--------------|
|   | 2006                        | 2005         |
| Revenue from gold sales, net  | \$ 1,255,013                | \$ 2,632,112 |
| Cost and Expenses   |                             |              |
| Costs applicable to sales (exclusive of depreciation and amortization shown separately below) |                             |              |
| Depreciation and amortization   | 288,305                     | 302,753      |
| Reclamation, Exploration and Test Mining Expenses   | 1,985,611                   | 4,810,643    |
| General and Administrative  | 573,683                     | 1,183,255    |
| Consultants and Professional Fees   | 468,951                     | 773,390      |
|   | 3,316,550                   | 7,070,041    |
| Operating Loss  | (2,061,537)                 | (4,437,929)  |
| Other Income (Expense):   |                             |              |
| Liquidated damages expense (See Note 11)  |                             | (4,619,144)  |
| Gain on Sale of Fixed Assets  | 91,953                      |              |
| Other -Settlement Agreement   | 85,000                      |              |
| Derivative Change in Fair Value   | 247,477                     |              |
| Interest income   |                             | 13,526       |
| Interest expense  | (2,779,420)                 | (2,309,479)  |
|   | (2,354,990)                 | (6,915,097)  |
| Net Loss:   | (4,416,527)                 | (11,353,026) |
| Net loss per common share - basic   | (0.006)                     | (0.045)      |
| Basic weighted average common shares outstanding  | 701,486,485                 | 252,930,064  |

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

**GOLDSRING, INC.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY**  
**For the Years Ended December 31, 2006 and 2005**

(Common Stock Par value, \$.000666 per share; 3,950,000,000 shares authorized  
Preferred Stock Par Value, per share; 50,000,000 shares authorized)

|  | Common<br>Shares Issued | Par value<br>\$.000666<br>per share | Additional<br>Paid-in<br>Capital | Treasury<br>Stock (at<br>cost) | Accumulated<br>Deficit | Total        |
|--|-------------------------|-------------------------------------|----------------------------------|--------------------------------|------------------------|--------------|
| Balance - December 31,<br>2004,                          | 171,120,482             | 113,966                             | 3,574,272                        | (67)                           | (12,171,276)           | (8,483,105)  |
| Mandatory redemption<br>March 2005 liquidated<br>damages | 59,203,484              | 39,430                              | 1,736,674                        |                                |                        | 1,776,104    |
| August 2005 liquidated<br>damages                        | 35,103,534              | 23,379                              | 1,029,727                        |                                |                        | 1,053,106    |
| Common Stock issued<br>for mining property               | 3,444,444               | 2,295                               | 167,706                          |                                |                        | 170,001      |
| Common stock issued<br>for debenture principal           | 28,201,478              | 18,782                              | 1,100,212                        |                                |                        | 1,118,994    |
| Common stock issued<br>for debenture interest            | 23,729,909              | 15,804                              | 771,871                          |                                |                        | 787,675      |
| December 2004<br>conversion shares<br>issued in 2005     | 4,243,791               | 2,826                               | 475,050                          |                                |                        | 477,876      |
| Net loss   |                         |                                     |                                  |                                | (11,353,026)           | (11,353,026) |
| Balance - December 31,<br>2005,                          | 325,047,122             | 216,482                             | \$ 5,398,330                     | (67)\$                         | (23,524,302)\$         | (17,909,557) |
| Retirement of Treasury<br>Shares                         | (100,000)               | (67)                                | 4                                | 67                             |                        | -0-          |
| Common stock issued<br>for debenture principal           | 433,316,756             | 288,589                             | 4,321,082                        |                                |                        | 4,609,671    |
| Common stock issued<br>for debenture interest            | 200,529,058             | 133,552                             | 1,884,148                        |                                |                        | 2,017,700    |
| Other  | 146,004                 | 97                                  |                                  |                                |                        | 97           |
| Net loss   |                         |                                     |                                  |                                | (4,416,527)            | (4,416,527)  |
| Balance, December 31,<br>2006                            | 958,938,940             | 638,653                             | \$ 11,603,560                    | \$ -                           | (27,940,829)\$         | (15,698,616) |

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

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

|  | <b>Years Ended December 31,</b> |                 |
|--|---------------------------------|-----------------|
|  | <b>2006</b>                     | <b>2005</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                                 |                 |
| Net loss   | \$ (4,416,527)                  | \$ (11,353,026) |
| Adjustments to reconcile net loss to net cash used in operating activities:    |                                 |                 |
| Depreciation and amortization  | 739,348                         | 445,193         |
| Liquidated damages from March 2004 financing and November 2004 restructuring   |                                 | 4,619,144       |
| Interest paid through the issuance of company stock                            | 2,017,700                       |                 |
| Changes in operating assets and liabilities                                    |                                 |                 |
| Inventories  | 52,000                          | 236,688         |
| Prepaid and other current assets   | 2,893                           | 7,705           |
| Other current assets   | (37,500)                        | 100,000         |
| Bank overdraft   | 15,491                          |                 |
| Accounts payable   | (750,670)                       | 677,275         |
| Accrued expenses   | 1,046,195                       | 2,803,339       |
| Net Change - Derivative Change Fair Value                                      | (247,477)                       |                 |
| Other  | 102,521                         | (541,472)       |
| Net cash used in operating activities  | (1,476,026)                     | (3,005,154)     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                                 |                 |
| Equipment / acquisition deposit  |                                 | (50,000)        |
| Acquisition of plant and equipment   | 10,969                          | (150,390)       |
| Net used in investing activities   | 10,969                          | (200,390)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                                 |                 |
| Principal payments on Note Payable   | (154,308)                       | (294,393)       |
| Proceeds from the issuance of note payable to related party                    | 1,592,500                       | 1,575,000       |
| Net cash provided by financing activities                                      | 1,438,192                       | 1,280,607       |
| Net increase in cash and cash equivalents                                      | (26,865)                        | (1,924,937)     |
| Cash and cash equivalents, beginning of year                                   | 26,865                          | 1,951,802       |
| Cash and cash equivalents, end of year   | \$                              | \$ 26,865       |
| <b>Supplemental disclosure of non-cash investing and financing activities:</b> |                                 |                 |
| Issuance of notes for liquidated damages for failure to deliver shares         | \$                              | \$ 403,175      |
| Issuance of notes for mandatory redemption payment plus accrued interest       | \$                              | \$ 6,885,184    |
| Issuance of company stock for acquisition of mining claims                     | \$                              | \$ 170,000      |
| Issuance of company stock for interest   | \$ 2,017,700                    | \$ 787,675      |
| Issuance of company stock for liquidated damages                               | \$                              | \$ 2,829,210    |
| Issuance of note for acquisition of mining claims                              | \$                              | \$ 160,000      |
| Conversion of debt into company's common shares                                | \$ 4,609,671                    | \$ 1,118,994    |

**Note 1 — Nature of Business**

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. (“we” “Goldspring,” or the “Company”). The primary nature of our business is the exploration and development of mineral producing properties.

**Note 2 — Going Concern**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year end losses from operations and had minimal revenues from operations in 2006. For the year ended December 31, 2006 the Company incurred net loss of \$4,416,527. Further, the Company has inadequate working capital to maintain or develop its operations, and is dependent upon funds from private investors and the support of certain stockholders.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, Management is proposing to raise any necessary additional funds through loans and additional sales of its common stock. There is no assurance that the Company will be successful in raising additional capital.

**Note 3 — Summary of Significant Accounting Policies**

Summarized below are the significant accounting policies of GoldSpring,

*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 December 31, 2006 and 2005.

### **Note 3 — Summary of Significant Accounting Policies - Continued**

#### *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.

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 Notes 2 and 3.

#### *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 which 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 2006 we recorded deferred financing charges associated with the issue of promissory notes payable totaling \$107,200. We amortize the charges over the respective lives of the promissory notes payable as interest expense. During the year ended December 31, 2006 we recognized \$334,170 of interest expense related to the amortization of deferred financing fees.



**Note 3 — Summary of Significant Accounting Policies — Continued**

*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.

*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 SFAS 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.

### **Note 3 — Summary of Significant Accounting Policies — Continued**

#### *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 (SOP) No. 96-1.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 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 SFAS 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 years ended December 31, 2005 and 2004, we had net losses for which the affect of common stock equivalents would be anti-dilutive. Accordingly only basic and dilutive loss per share is presented.

#### *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 — Summary of Significant Accounting Policies — Continued**

*Recent Authoritative Pronouncements*

Recent accounting pronouncements that the Company has adopted or will be required to adopt in the future are summarized below.

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154), which replaces Accounting Principles Board (APB) Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections, and it establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted SFAS No. 154 in the first quarter of fiscal year 2007 and does not expect it to have a material impact on its consolidated results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 addresses the requests from investors for expanded disclosure about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and will be adopted by the Company in the first quarter of fiscal year 2009. The Company is unable at this time to determine the effect that its adoption of SFAS No. 157 will have on its consolidated results of operations and financial condition.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006, and the Company is required to adopt it in the first quarter of fiscal year 2008. The Company is currently evaluating the effect that the adoption of FIN 48 will have on its consolidated results of operations and financial condition and is not currently in a position to determine such effects, if any.

### Note 3 — Summary of Significant Accounting Policies — Continued

#### *Recent Authoritative Pronouncements-Continued*

In September 2006, the Security and Exchange Commission (SEC) issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB No. 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 establishes an approach that requires quantification of financial statement errors based on the effects of each on a company's balance sheet and statement of operations and the related financial statement disclosures. Early application of the guidance in SAB 108 is encouraged in any report for an interim period of the first fiscal year ending after November 15, 2006, and will be adopted by the Company in the first quarter of fiscal year 2007. The Company does not expect the adoption of SAB No. 108 to have a material impact on its consolidated results of operations and financial condition.

FSP SFAS 123(R)-5 was issued on October 10, 2006. The FSP provides that instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, then no change in the recognition or the measurement (due to a change in classification) of those instruments will result if both of the following conditions are met: (a). There is no increase in fair value of the award (or the ratio of intrinsic value to the exercise price of the award is preserved, that is, the holder is made whole), or the antidilution provision is not added to the terms of the award in contemplation of an equity restructuring; and (b). All holders of the same class of equity instruments (for example, stock options) are treated in the same manner. The provisions in this FSP shall be applied in the first reporting period beginning after the date the FSP is posted to the FASB website. The Company does not expect the adoption of FSP SFAS 123(R)-5 to have a material impact on its consolidated results of operations and financial condition.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments, and Amendment of FASB No. 133 and 140" (SFAS No. 155), which establishes the accounting for certain derivatives embedded in other instruments. It simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative, that otherwise would require bifurcation under SFAS No. 133, as well as eliminating a restriction on the passive derivative instruments that a qualifying special-purpose entity ("SPE") may hold under SFAS No. 140. This statement allows a public entity to irrevocably elect to initially, and subsequently, measure a hybrid instrument that would be required to be separated into a host contract and derivative in its entirety at fair value (with changes in fair value recognized in earnings) so long as that instrument is not designated as a hedging instrument pursuant to the statement. SFAS No. 140 previously prohibited a qualifying special-purpose beneficial interest, other than another derivative financial instrument. The statement is effective for fiscal years beginning after September 15, 2006, with early adoption permitted as of the beginning of an entity's fiscal year. Management believes the adoption of this statement will have no immediate impact on the Company's financial condition or results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of FAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that FAS 159 will have on our financial statements.

**Note 4 — Mineral Properties**

At December 31, 2006 and 2005, our mineral properties consisted of the following:

| <b>MINERAL PROPERTIES:</b> | <b>2006</b>  | <b>2005</b>  |
|----------------------------|--------------|--------------|
| Placer Gold Properties     | \$ 100,000   | \$ 100,000   |
| Big Mike Copper Property   | 69,138       | 119,138      |
| Plum Gold Properties       | 1,360,699    | 1,360,699    |
| Water rights               | 90,000       | 90,000       |
| Balance                    | \$ 1,619,837 | \$ 1,669,837 |

*Placer Gold Properties and Big Mike Copper Property*

In June 2003, we acquired GoldSpring, LLC (the Placer Gold properties) and Ecovat Copper Nevada, LLC (the Big Mike Copper property). Total consideration paid for the Placer Gold mineral properties and Big Mike Copper property was \$100,000 cash and the issuance of 90,000,000 shares of common stock to Ecovery's 128 shareholders, valued at \$119,138 (Ecovery's book value for the Big Mike Copper property), respectively.

We are required to pay a 2% net smelter royalty for gold production at the Placer Gold properties once the \$4,650,000 20% net proceeds contingent production royalty obligation has been satisfied.

In September 2006, we entered into a ten year lease with a local company, controlled by a former GoldSpring director, for 17 unpatented lode claims and one placer claim covering a total of 310 acres in Pershing County Nevada that comprise our Big Mike Copper property. The lease included an initial \$50,000 payment to cover royalty payments due for the first two years. Additionally, the lessee must pay Goldspring \$75,000 when a production permit is awarded, and \$125,000 when commercial mining commences. Additionally, the lessee agrees to a work expenditure of \$300,000 for environmental and engineering matters in the first twelve months of the lease. During the term of the lease, Goldspring will also receive a production royalty of between 3% and 5% of net returns from copper mining, dependent on the price of copper.

*Plum Gold Properties*

We acquired the Plum Mining Company, LLC ("Plum LLC") in November of 2003 for a total of \$1,400,000, consisting of a cash payment of \$200,000, 549,177 restricted common shares valued at \$200,000, and a non-interest bearing promissory note payable (See Note 5) for \$1,000,000. The Plum LLC's primary assets were the Plum Gold Properties. In 2005, we acquired the Keystone, Justice, Vindicator and Woodville mining claims and 19 other mineral leases that are near or contiguous to our existing Plum Gold property for \$335,000.

**Note 4 — Mineral Properties -Continued***Plum Gold Properties-Continued*

We are required to pay royalties to the two lessors of our Billie the Kid/Lucerne project, totaling the greater of \$1,000 per month or a percentage of the Net Smelter Returns. The percentage varies based on the price of gold: 3% if gold is less than \$400 per ounce, 4% if gold is in the \$400's per ounce, and 5% if gold is \$500 or greater per ounce.

**Note 5 — Plant, Property and Equipment**

At December 31, 2006 and 2005, plant, property and equipment consisted of the following (See Note 1):

|   | <b>2006</b>  | <b>2005</b>  |
|---|--------------|--------------|
| Plant, property and equipment at Plum Mine location | \$ 1,543,340 | \$ 1,504,309 |
| Equipment, corporate                                | 18,195       | 18,195       |
| Less accumulated depreciation                       | (803,393)    | (515,087)    |
| Balance   | \$ 758,142   | \$ 1,007,417 |

Included in plant, property and equipment at our Plum Mine location at December 31, 2006, is equipment under capital lease of \$156,292. Future minimum lease payments for the related obligation under capital lease are \$32,772 for 2007 and \$43,210 for 2008. We recorded depreciation expense on equipment under capital lease totaling \$34,772 during the year ended December 31, 2004.

**Note 6 — Reclamation Liability**

The Nevada Revised Statutes and regulations promulgated by the Nevada State Environmental Commission and Division of Environmental Protection require a surety bond to be posted for mining projects to assure that a site is left safe, stable, and capable of providing for a productive post-mining land use. Pursuant to the approved Reclamation Plan for Billie the Kid, we posted a surety bond in the amount of \$553,190, of which \$377,000 was in the form of a cash deposit and the balance was secured from a surety agent.

We have accrued a long-term liability of \$553,190 as of December 31, 2006, with regard to our obligations to reclaim our Plum Mine facility based on our reclamation plan submitted and approved by the Nevada State Environmental Commission and Division of Environmental Protection. Costs of future expenditures for environmental remediation are not discounted to their present value unless subject to a contractually obligated fixed payment schedule. Such costs are based on management's current estimate of amounts expected to be incurred when the remediation work is performed within current laws and regulations. It is reasonably possible that, due to uncertainties associated with the application of laws and regulations by regulatory authorities and changes in reclamation or remediation technology, the ultimate cost of reclamation and remediation could change in the future. We periodically review accrued liabilities for such reclamation and remediation costs as evidence becomes available indicating that our liabilities have potentially changed.

**Note 7 — Notes Payable — Mineral Property Purchases**

We have a non-interest bearing note payable to the Brockbank Trust related to our purchase of the Plum Mining property. The note does include, however, a clause for 5% annual interest on all past due balances. The note was payable in ten quarterly payments through June 2006. As of December 31, 2006 we still had a \$250,000 note balance due to the Brockbank Trust.

During 2005 we purchased certain mining claims that were near or contiguous to our Plum Gold Property (See Note 4). In connection with the purchase we issued a note payable of \$160,000. The note was payable in quarterly installments of \$16,000 and is payable in its entirety on or before June 2008. We have not been making schedule payments on this note due to some unresolved issues with the title on the property. Since we are in technical default on this loan, the entire outstanding balance has been recorded as short-term notes payable. At December 31, 2006 the note balance was \$147,200.

At December 31, 2006 and 2005, our balance owing on mineral property notes payable was as follows:

|                      | 2006       | 2005       |
|----------------------|------------|------------|
| Balance              | \$ 397,200 | \$ 510,000 |
| Less current portion | 397,200    | 414,000    |
| Non-current portion  | \$ -       | \$ 96,000  |

**Note 8 — Convertible Debentures and Notes Payable***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 11).

**Note 8 —Convertible Debentures and Notes Payable - Continued**

The 8% convertible notes mature in November 2006. We must make monthly payments of 102% of 1/20<sup>th</sup> 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.

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. 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:



## Note 8 —Convertible Debentures and Notes Payable - Continued

### *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 (See Note 7) 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, 2006 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.

**Note 8 —Convertible Debentures and Notes Payable - Continued****2,200,000 Convertible Debenture Financing**

On August 23 and 24, 2006, the Company formally entered into an agreement with several investors to loan \$1,900,000 to the Company. In March 2007, the Company amended the agreement increasing the loan amount to \$2,200,000. The notes evidencing the loan bear interest at the rate of 12% per annum, payable monthly on the first of each month commencing October 1, 2006, along with 1/24 of the principal amount of such notes on each repayment date and were issued between May 18, 2006 - August 24, 2006, with the second quarter notes being treated as “bridge debt” until the loan agreement was formally signed.. The notes are also convertible into Common Stock at a 50% discount to market until a registration statement registering the Common Stock underlying the notes is effective and at a 15% discount to market thereafter. As additional consideration, the investors are to be issued a total of 20,000,000 warrants to purchase common stock at exercise prices based upon the same formulas as for conversion of the amounts due under the notes. The notes are secured by a lien on the assets of Goldspring, Inc. and a pledge of all of the interests in Plum Mine Special Purpose, LLC, which owns the Plum Mine operation. In connection with this loan, the lender has agreed to acquire the existing mortgage on the Plum Mine property from the Brockbank Trust . To date, \$1,300,000 of the \$2,200,000 has been funded by the investors.

The notes issued as of December 31, 2006 are as follows:

|                             | Issued date | Face amount         |
|-----------------------------|-------------|---------------------|
| Windfield Debenture Payable | 5/15/2006   | \$ 300,000          |
| Windfield Debenture Payable | 6/21/2006   | 300,000             |
| Windfield Debenture Payable | 8/23/2006   | 300,000             |
| Longview Debenture Payable  | 8/24/2006   | 300,000             |
| Windfield Debenture Payable | 12/12/2006  | 100,000             |
| <b>Total</b>                |             | <b>\$ 1,300,000</b> |

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

|  | 2006                 | 2005              |
|--|----------------------|-------------------|
| Convertible Debentures Payable-Investors                     | \$ 2,600,812         | \$ 6,220,409      |
| Convertible Debentures Payable- Mandatory Redemption payment | 5,886,059            | 6,885,184         |
| Convertible Debentures Payable- Failure to Deliver Shares    | 356,348              | 356,348           |
| Convertible Notes Payable - 2006                             | 1,300,000            | -                 |
| <b>Total</b>   | <b>\$ 10,143,219</b> | <b>13,461,941</b> |

**Note 9 —Promissory Notes Payable**

*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 (See Note 7). As of December 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 (See Note 7) and the Winfield convertible debentures of March 2005.

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

*Promissory Notes Payable: December 2005 through March 2006 Financing*

In December of 2005, we borrowed \$375,000 from Longview Fund L.P., a major shareholder and \$200,000 from MCF Corporation. The notes accrue interest at 16% per annum, are uncollateralized and are payable including accrued interest on or before March 15, 2006. The Longview notes were amended extending the term of the loans to June 2007.

In February 2006, we completed a financing transaction, which provided us with \$250,000 in funding. In consideration for the funding, we issued a promissory note 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 March 2006, we completed an additional financing transaction, which provided us with \$150,000 in funding under the same terms and conditions as the February 2006 financing. In December 2006 the term on the note was extend until June 2007.

**Note 9 —Promissory Notes Payable - Continued**

Accordingly, at December 31, 2006 and 2005 we classified the following notes payable as current liabilities as follows:

|   | <b>2006</b>  | <b>2005</b>  |
|---|--------------|--------------|
| Promissory Notes Payable-July 2005 Financing      | \$ 1,200,000 | \$ 1,200,000 |
| Promissory Notes Payable-September 2005 Financing | 300,000      | 300,000      |
| Promissory Notes Payable-December 2005 Financing  | 575,000      | 575,000      |
| Promissory Notes Payable-February 2006 Financing  | 250,000      | -            |
| Promissory Notes Payable-March 2006 Financing     | 150,000      | -            |
| Total   | \$ 2,475,000 | \$ 2,075,000 |

**Note 10 —Other Long-term Debt**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

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 December 31, 2006 and 2005, we had the following amounts due under the financings as follows:

|                                    | <b>2006</b> | <b>2005</b> |
|------------------------------------|-------------|-------------|
| Long-term Debt-Current Plum Mine   | \$ 250,000  | \$ 350,000  |
| Long-term Debt-Current Seller Note | 147,200     | 64,000      |
| Other Long-term Debt-Current       | 9,758       | 9,108       |
| Total                              | \$ 406,958  | \$ 423,108  |

|  | <b>2006</b> | <b>2005</b> |
|--|-------------|-------------|
| Long-term Debt-non current Plum Mine   | \$ -        | \$ -        |
| Long-term Debt-non current Seller Note | -           | 96,000      |
| Other Long-term Debt -Non-current      | 23,336      | 34,243      |
| Total                                  | \$ 23,336   | \$ 130,243  |

**Note 10 —Other Long-term Debt - Continued**

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

|                     |    |        |
|---------------------|----|--------|
| 2007                | \$ | 10,676 |
| 2008                | \$ | 11,441 |
| 2009                | \$ | 10,977 |
| 2010 and thereafter | \$ | -      |
| Total               | \$ | 33,094 |

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 December 31, 2006 and 2005 we classified the following notes payable as current liabilities as follows:

|                           | <b>2006</b>   | <b>2005</b>   |
|---------------------------|---------------|---------------|
| Convertible Notes Payable | \$ 10,143,219 | \$ 13,461,941 |
| Promissory notes          | 2,475,000     | 2,075,000     |
| Total                     | \$ 12,618,219 | \$ 15,536,941 |

**Note 11 — Liquidated Damages**

Our March 2004 private placement, as restructured in November 2004, is subject to Non-Registration Events Provisions (“Non-Registration Provisions”) for the investors’ common stock that may be converted from convertible notes principal and interest and the exercise of common stock purchase warrants (see Note 12). The Non-Registration Provisions required us to file and cause to become effective a registration statement with the Securities and Exchange Commission so that investors could sell their shares of common stock without restriction. 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. His failure to submit the registration statement to the SEC by December 30, 2004 triggered liquidated damages to accrue under the November 2004 subscription agreement. Pursuant to the terms of the Subscription Agreement, liquidated damages accrue at a rate of percent (2%) of the principal amount of the Debenture for each thirty day period or part thereof for not having our Registration Statement declared effective.

Furthermore, the damages may be paid in cash or in unrestricted common stock. If paid in stock, we are required to pay 200% of the cash penalty. Because we do not have the cash or free-trading stock to pay the liquidated damages, we reached a settlement agreement with the investors to pay the liquidated damages in restricted common stock valued at \$0.03 per share. Pursuant to this settlement agreement, we issued 59 million shares of restricted common stock in April 2005 and approximately 40 million s shares of restricted common stock in November of 2005.

In addition, pursuant to the November 2004 subscription agreement, we were subject to liquidated damages for failure to issue shares to holders of convertible notes payable.

We recorded liquidated damages and other related expenses due to investors of our March 2004 offering and the subsequent November 30, 2004 restructuring, during December 31, 2006 and 2005 as follows:

| Liquidated damages relating to:   | 2006 | 2005         |
|---|------|--------------|
| Non-Registration Provisions   | \$ - | \$ 4,520,615 |
| Failure to timely deliver shares upon notice of converting note holders | -    | 98,529       |
|   | \$ - | \$ 4,619,144 |

**Note 12 — Income Taxes**

The provision (benefit) for income taxes from continued operations for the years ended December 31, 2006 and 2005 consist of the following:

|                                 | 2006        | 2005        |
|---------------------------------|-------------|-------------|
| Current:                        |             |             |
| Federal                         | \$ -        | -           |
| Deferred:                       |             |             |
| Federal                         | (1,500,000) | (3,900,000) |
| Increase in valuation allowance | 1,500,000   | 3,900,000   |
| Benefit for income taxes, net   | \$ -        | -           |

The difference between income tax expense computed by applying the federal statutory corporate tax rate and actual income tax expense is as follows:

|                                   | December 31,<br>2006 and 2005 |
|-----------------------------------|-------------------------------|
| Statutory federal income tax rate | 35.0%                         |
| Increase in valuation allowance   | (35.0)%                       |
| Effective tax rate                | -%                            |

Deferred income taxes result from temporary differences in the recognition of income and expenses for the financial reporting purposes and for tax purposes. The tax effect of these temporary differences representing deferred tax asset and liabilities result principally from the following:

|                                   | December 31,<br>2006 |
|-----------------------------------|----------------------|
| Net operating loss carry-forwards | \$ (5,400,000)       |

At December 31, 2006 the Company has a net operating loss carry-forward of approximately \$27.9 millions that begin to expire in 2024 available to offset future taxable income, may be subject to certain limitations under section 382 of the Internal Revenue Code of 1986, as amended, and other limitations under state tax laws.

### **Note 13 — Stockholders' Equity**

#### *Common Stock issued for Convertible Debenture Principal and Interest*

During 2006 the Company issued 433,316,756 and 200,529,058 shares of its restricted common stock in connection with the conversion of \$4,609,671 and \$2,017,700 of debenture principal and interest, respectively.

#### *March 2004 Offering*

We completed a private placement of securities transaction during March 2004. In connection with the offering, we received gross proceeds of \$10 million from a group of accredited institutional and individual investors through the issuance of 21,739,129 shares of unregistered restricted common stock at a price of \$0.46 per share. The investors also received two forms of warrants in this transaction. The Green Shoe Warrants allowed the investor group to purchase an additional 10,869,575 shares of common stock under the same terms and conditions at a price of \$0.46 per share. The Green Shoe Warrants are exercisable for a period of 180 days from the effective date of the registration statement. The series A warrants allow the investor group to purchase 10,869,575 shares of common stock at an exercise price of \$0.86 per share and are exercisable during the four-year period ending March 2008. Subsequent to the completion of the offering, we failed to meet certain provisions of the offering that required us to provide for an effective registration statement with the Securities and Exchange Commission.

As a result, and effective November 30, 2004, we restructured our \$10.0 million private placement transaction. 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 27,800,000 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 Note 6).

We exchanged the securities in reliance upon the exemptions provided by (a) Section 3(a)(9) of the Securities Act of 1933, as amended (the "Securities Act") as securities exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange; and (b) Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

#### *Stock Purchase Warrants*

In connection with our November 30, 2004 restructuring agreement, we agreed to issue (detachable) 50 Class B Stock Purchase Warrants ("the Warrants") for each one-hundred shares that the convertible notes could be converted into, assuming they were converted immediately after closing of the restructuring agreement. The Warrants are exercisable at \$0.20 within four years of their issue date and are subject to registration rights. We estimated the fair value of the warrants at the time of issuance as nil and have not reflected any discount on the convertible notes relating to them.



**Note 13 — Stockholders' Equity - Continued**

*Common Stock Retired to Treasury*

During 2006, 100,000 common shares of treasury stock were retired.

*Common Stock issued for Liquidated Damages*

During April of 2005 we issued 59,203,484 shares of our common stock to investors in connection with satisfying liquidated damages totaling \$1,776,104 related to a registration statement filed to register shares of our common stock issued in our March private placement. In addition, during November 2005 we issued an additional 35,103,534 shares of our common stock to investors in connection with satisfying liquidated damages totaling \$1,053,106 pursuant to the terms and conditions of the November 30, 2004 Subscription Agreement (See Note 9).

*Common Stock issued for Mining Properties*

During 2005 we acquired mining claims near or contiguous to our Plum Mining Property in exchange for a cash payment of \$10,000, a note payable of \$100,000 and 3,000,000 restricted shares of our common stock valued at \$150,000. We valued the shares based upon our estimate of their market value at the time of issuance.

During October of 2005 the Company issued 444,444 shares of its restricted common stock to an individual as consideration for the purchase of an entity controlled by the individual owning property near our Plum Mining property. If we are unable to consummate the transaction the shares will be retained the individual. We valued the shares at \$20,000 based on our estimate of the common stock's fair value at the time of issuance.

Note 14 - Subsequent Events

Effective as of March 23, 2007, Stanley A. Hirschman, Rex Outzen and Christopher Aguilar resigned as Directors of the Company, leaving Bill Nance as the sole remaining Director. These resignations followed the fourth quarter resignation of Todd Brown.

Also, on March 23, 2007, the litigation involving a former Director of the Company and others was settled. See Item 3 of Part I of the Company's 10-KSB for the year ended December 31, 2006 for further details.