GOLDSPRING INC
Form 10KSB
April 14, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 31, 2005

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 000-32429

GOLDSPRING, INC.
(Exact name of small business issuer as specified in its charter)

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

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

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days.
Yes [x] 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: $ 2,632,112

State the aggregate market value of the voting and non-voting common equity held by non-affiliates based on the average bid and asked price as of March 31, 2006: $ 8,600,000

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: 537,197,775 shares of Common Stock, $0.000666 Par Value, as of March 31, 2006.

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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 include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper, diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold

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

PART I

Item 1. Description of Business

Overview

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

2005 has been a year filled with challenges for our Company. In addition to trying to bring our Plum Mine operation into profitable production, we have continued to experience the costs and distractions of the litigation between the Company and its founder that has impacted our Company since December 2004. The litigation has been a drain on our scarce capital and human resources. (See Part I, Item 3, “Legal Proceedings” for a detailed discussion.) We are committed to finding a resolution to our pending legal matters that will allow our management to focus on building a successful, profitable operation. We are actively seeking financing to meet our working capital needs and fuel our growth. If we are unable to secure such financing, we may be unable to continue as a going concern.

In March 2005, we initiated a program to 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 we have retained Mine Development and Associates of Reno, Nevada to update our mine plan and model. 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. We believe that these improvements will result in increased gold production and reduced production costs. As we move into 2006, we continue to move forward with the operational improvement plan and the implementation of the various process modifications.

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 recover our investment and operating costs.

Employees

We have 20 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. We also use subcontractors in our test mining operations, which involve approximately 20 people, including a test mining and screening foreman.

Principal Markets

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

Government Regulation

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

Reclamation

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

The Nevada Revised Statutes and regulations promulgated thereunder by the Nevada State Environmental Commission and the Nevada Division of Environmental Protection, Bureau of Mining and Reclamation require a surety bond to be posted for mining projects to assure we will leave the site safe, stable and capable of providing for a productive post-mining land use. Pursuant to the approved Reclamation Plan for Billie the Kid, we posted a surety bond in the amount of $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)

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.

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.

Risk Factors

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

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

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

We have received a qualified report from our independent auditors

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

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

We have invested capital in various mineral properties and projects in North America where we may not have conducted sufficient exploration and engineering studies to minimize the risk of project failure to the extent that is typical in the mining industry. Our mineral projects involve high risks because we have not invested substantial sums in the characterization of mineralized material, geologic analysis, metallurgical testing, mine planning, and economic analysis to the same extent that other mining companies might deem reasonable. 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 technical training and mining experience.

Our corporate officers lack technical training and experience in operating a mine. With no direct training or experience in these areas, our corporate officers may not be fully aware of many 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, 2005, we had outstanding 325,047,122 shares of common stock. In addition, we had outstanding convertible notes and various common stock purchase warrants. At December 31, 2005, these notes and warrants were convertible into or exercisable for a total of approximately 762 million additional shares of our common stock, subject to further anti-dilution provisions.

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

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15g-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, 2005, the outstanding balance of the note was $450,000.

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 2005 GoldSpring used a mining contractor to dig material from the Billie the Kid pit. The contractor used 50 ton Caterpillar 773 haul trucks to haul the mineralized materials from the Billie the Kid/Lucerne open pit to the crushing and process facility located in the northeast corner of the property. The mineralized material is crushed, screened, and agglomerated in a self-contained portable crushing plant. The mineralized material is fed to 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 provides the haul trucks, front end shovel, loaders, blade, dozer, hopper, crushers, screen, mobile crane, foot roller, water truck, conveyors, and generators. We own the Merrill-Crowe gold precipitation plant, the agglomerator, dozers, 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 $1,800,000.

Power Utilization at the Plum Property:

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

Geology, Structure and Mineralization

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

Mineralized Material

We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. Therefore, all of our activities are considered 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 and 2005. We have established procedures to recalculate and update our mineral inventory annually, and we plan do so in 2006. Our year-end mineral inventory calculations will incorporate test mining depletions and addition to inventory based on results of mine optimization and exploration work performed during 2004 and 2005.

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.

We are seeking a partner to develop this project. Because we have not established reserves on this property, any work that will be conducted on the property would be considered exploratory in nature.

Mineral Permits Acquired in Alberta, Canada

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

In February 2006, we executed a Letter of Intent to sell these mineral rights for CDN$1,100,000. CDN$100,000 of the sales price is to be paid in cash and CDN$1 million is to be paid through a 3% Net Smelter Royalty on Production of Iron Pellets or Ingots. We closed this transaction in March 2006.

Item 3. Legal Proceedings

The State Court Case

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

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

On November 29, 2004, we moved for a temporary restraining order, or TRO, prohibiting Mr. Parent and his spouse from selling, transferring, assigning, or otherwise disposing of up to approximately 123,000,000 shares of our stock in their possession. After a hearing, at which the Parents appeared through counsel, the Honorable Anna M. Baca granted

the motion, conditioned on the posting of an $8 million bond. We did not post the bond, and the TRO was subsequently dissolved.

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

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

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

Mr. Treminio has since been dismissed from the suit in accordance with the terms of a prior settlement agreement between Mr. Treminio and GoldSpring, Inc.. Mr. Shaw filed an answer, *in pro per*, on April 6, 2005, and generally denied the allegations of the complaint. Mr. Haswell, Mr. Doyle and Ecovery, Inc. have filed answers and generally denied the allegations of the complaint.

The Federal Court Case

Background

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

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

The Temporary Restraining Order

Following a hearing on December 22, 2004, at which the Court heard evidence and argument of counsel, the Honorable Earl H. Carroll issued a December 23, 2004 Order Granting Plaintiffs' Motion for Temporary Restraining Order, or TRO. The TRO precluded defendants and their agents from (1) making any withdrawals from any bank accounts of our company, other than reasonable withdrawals necessary to the daily operations of the business; (2) rescinding or interfering in any way with any transactions approved by our company's Board of Directors prior to December 9, 2004; (3) entering into any contracts or agreements with third parties on behalf of our company or disposing of or transferring any property or assets of our company; and (4) issuing or otherwise transferring any stock or debentures.

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

The Preliminary Injunction and Notice of Appeal

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

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

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

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

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

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

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

August 16, 2005. The defendants' response brief was filed on October 3, 2005. The 9th Circuit Court of Appeals held oral arguments on the appeal on January 12, 2006.

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

The Investors' Motion to Intervene

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

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

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

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

The Company's Motion Re: the Gust Rosenfeld Retainer

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

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

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

The "New" Consent Resolutions

On March 21, 2005, defendants Stephen and Judith Parent filed a "Motion for Order" asking the Court to remove certain directors of our company's Board of Directors. Attached to the motion was a "Consent in Lieu of a Special Meeting of the Shareholders of GoldSpring, Inc.," dated March 18, 2005 (the "March Consent"). The March Consent was nearly

identical to the one adopted by the Parents and others on December 9, 2004. It purported to remove directors Robert T. Faber, John F. Cook, Leslie L. Cahan, Todd S. Brown, Christopher L. Aguilar, Stanley A. Hirschman, and Phillip E. Pierce as directors of our company. The March Consent was signed by shareholders Stephen Parent; Judith Parent; Aztech Environmental Industries, Inc.; Jasmine House, LLC; Frontline 2001, LLC; Jubilee Investment Trust PLC; Ronald M. Haswell; Mark and Jennifer Ward; Walter T. Plummer; Lynn Zollinger; Maia Ray; and Rita Hardy.

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

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

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

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

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

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

The results of the voting on those matters are outlined in the following table:
(1) Election of directors:

	VOTES FOR	AGAINST	ABSTAIN

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

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

PART II

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

PRICE RANGE OF COMMON STOCK

Our common stock is currently traded on the OTC Bulletin Board under the symbol "GSPG:OB". The following table sets forth the high and low bid prices for our common stock since for the last three years.

Year	Quarter	High	Low
2003	First	1.05	0.06
2003	Second	0.16	0.01
2003	Third	0.49	0.05
2003	Fourth	0.84	0.27
2004	First	1.04	0.66
2004	Second	0.85	0.28
2004	Third	0.42	0.17
2004	Fourth	0.22	0.10
2005	First	0.23	0.06
2005	Second	0.10	0.03
2005	Third	0.11	0.05
2005	Fourth	0.06	0.02

As of December 31, 2005, we had over 2,000 holders of our common stock. That does not include the number of beneficial holders whose stock is held in the name of broker-dealers or banks. At December 31, 2005, we had 325,047,122 shares of common stock outstanding. The above quotations reflect the inter-dealer prices without retail mark-up, mark-down or commissions and may not represent actual transactions.

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

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

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

The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations as of and for the year ended December 31, 2005, as well as our future results.

Overview

We are a North American precious metals mining company with an operating gold and silver test mine in northern Nevada. Our Company was formed in mid-2003, and we acquired the Plum property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. During 2005, we acquired additional properties around the Plum project in Northern Nevada,

expanding our footprint and creating opportunities for exploration. We are an emerging company, looking to build on our success through the acquisition of other mineral properties in North America with reserves and exploration potential that can be efficiently put into near-term production. Our objectives are to increase production; increase reserves through exploration and acquisitions; expand our footprint at the Plum mine; and maximize cash flow and the return for our shareholders.

2005 has been a year filled with challenges for our Company. In addition to trying to bring our Plum Mine operation into profitable production, we have continued to experience the costs and distractions of the litigation between the Company and its founder that has impacted our Company since late 2004. The litigation has been a drain on our scarce capital and human resources. (See Part I, Item 3, “Legal Proceedings” for a detailed discussion.) We are committed to finding a resolution to our pending legal matters that will allow our management to focus on building a successful, profitable operation. We are actively seeking financing to meet our working capital needs and fuel our growth. If we are unable to secure such financing, we may be unable to continue as a going concern.

In 2005, we continued to look for growth opportunities to expand our footprint at the Plum Mine as well as to add additional properties to our portfolio. During September and October of 2005, we acquired twenty-two mining claims from Comstock Gold, LLC. These claims included the Justice, Woodville and Keystone patented claims, which are adjacent to our operations at the Plum Mine. We also acquired an additional twelve claims in the Comstock Lode, known as the Vindicator claims, in November of 2005. We intend to continue to pursue growth opportunities in 2006.

On October 3, 2005, the SEC declared our SB-2 Registration Statement effective, ceasing the liquidated damages we had incurred since the March 2004 financing. Pursuant to the March 2004 subscription agreement, our Company was obligated to pay damages of two percent per month on the outstanding principal balance. These damages totaled $290,000 per month.

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 we have retained Mine Development and Associates of Reno, Nevada to update our mine plan and model. 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. We believe that these improvements will result in increased gold production and reduced production costs. As we move into 2006, we continue to move forward with the operational improvement plan and the implementation of the various process modifications.

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 May 2006. Recent changes have included revising the mine plan to reflect the current higher gold prices; adding various efficiencies in the processing area; and re-positioning personnel to maximize overall performance. The mine plan and reserve report are the culmination of a twelve-month undertaking by our Company and Mine Development & Associates. 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. We anticipate our mining operations to resume May 1, 2006. 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 2006. In March 2006, we retained Larry Martin, a registered geologist, to oversee our exploration program at the Plum Mine and in the Comstock Lode district. Mr. Martin has over twenty-five years of diverse geological and exploration experience in the mining industry. He has worked for several major mining enterprises, including Peter Kiewit, where he served as manager of geological services. We have allocated a budget of $500,000 to explore and develop our claims at the Plum Mine. We expect to begin exploration in late spring or early summer of 2006. We intend to target our exploration toward replenishing and expanding our mineralized material inventory at our existing mine and toward developing new mineral properties. The successful location of additional mineralized material on the existing property would allow us to expand the size and the lifespan of the Plum mining project, exclusive of new property acquisitions. It is our belief that we possess an advantage with our status as likely the only heap leach gold mining permit holder in the area. This permit is relatively difficult to obtain, and it is one that we can expand to include new areas in the event we locate and wish to process new deposits.

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.

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 anticipate a resolution of this issue by June of 2006.

Placer Claims, Water Rights, and Mineral Permits

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

The Big Mike Copper property is located in Pershing County, Nevada. It covers a total of 310 acres and consists of 17 unpatented lode claims and one placer claim. We have not established any proven or probable reserves that meet the requirements of SEC Industry Guide 7. We have not completed any exploration activity on the project. The property

includes an open pit, mineralized material in a stockpile and waste dumps. We are actively exploring opportunities to bring this project into production. The options being considered include finding a joint venture partner or selling the property and retaining a production royalty.

In May 2004, the Alberta government granted us mineral permits for all non-energy minerals on nearly 800 square miles of Alberta, Canada mineral property. Iron bearing material was discovered in the area covered by our mineral permits in 1953 from oil and gas drilling. From 1995 through 1997, a series of tests were performed that showed the mineralized material present was amenable to treatment to produce iron pellets and pig iron. We have reviewed the existing data and conducted a preliminary pre-feasibility study on the property. We have not established any reserves on this property. In February 2006, we executed a Letter of Intent to sell these mineral rights for CDN$1,135,000. CDN$135,000 of the sales price is to be paid in cash and CDN$1 million is to be paid through a 3% Net Smelter Royalty on Production of Iron Pellets or Ingots.

Comparative Financial Information

	Twelve Months ended December 31, 2005	Twelve Months ended December 31, 2004	Difference
Revenue	$ 2,632,112	$ 955,380	$ 1,676,732
Reclamation, Exploration and Test Mining Expenses	4,419,353	6,800,011	(2,380,658)
Consulting & professional	773,390	659,931	113,459
Liquidated Damages	4,619,144	1,627,308	2,991,836
Interest Expense	2,309,479	65,997	2,243,482
Net Loss	$ (11,353,026)	$ (9,569,535)	$ (1,783,491)

We sold 6,073 ounces of gold at an average price of $ 433 per ounce during the twelve-month period ended December 31, 2005 compared to gold sales of 2,836 ounces at an average price of $ 351 per ounce during the same period of 2004. We spent the first six months of 2004 completing the required infrastructure to complete our “test mine” and did not sell any gold until the third quarter of 2004.

Reclamation, Exploration and Test Mining Expenses were $ 2,380,658 less for the year ended December 31, 2005 than for the year ended December 31, 2004. This 2005 expense decrease reflects the transition to full-time “test mining” in 2005. During the first nine months of 2004, our focus was on building the infrastructure for our mining operation, and the cost of building the infrastructure was included in our test mining expenses for 2004. The third quarter of 2004 was the first quarter in which we conducted full-scale test mining. Our Company is an Exploration Stage enterprise as defined by SEC Industry Guide 7, and, in accordance with SEC Industry Guide 7, infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

	Quarter ended December 31, 2005	Quarter ended December 31, 2004	Difference
Revenue	$ 476,574	$ 505,128	$ (28,509)
Reclamation, Exploration and Test Mining Expense	549,037	6,109,155	(5,560,118)
Liquidated Damages	-0-	1,627,308	(1,627,308)
Interest Expense	703,892	98,743	605,149
Net Loss	$ (1,700,313)	$ (8,217,932)	$ (6,517,619)

During the fourth quarter of 2005 we sold 875 ounces of gold at an average price of $ 545 per ounce compared to gold sales of 1,183 ounces at an average price of $ 426 per ounce during the same period of 2004. Our “test mine” became operational in late third quarter 2004, which was our first quarter of selling gold. The fourth quarter of 2004 was our first full quarter of test mining.

Reclamation, Exploration and Test Mining Expenses in the fourth quarter of 2005 were $ 5,560,118 less than the fourth quarter of 2004. This variance reflects the exploration drilling performed during the fourth quarter of 2005 offset by the shift from infrastructure construction to “test mining.” As detailed above, our Company is an Exploration Stage enterprise and in accordance with Industry Guide 7 infrastructure expenditures such as haul roads, leach pads and start-up costs were expensed.

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

At December 31, 2005, our Company had approximately $16,197,000 of outstanding debt bearing an average interest rate of 15% of which $13,462,000 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.

Restatement of Financial Statements

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

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

Pursuant to our decision to make the above-referenced restatements, the financial statements have been restated and are presented, as restated, within this filing.

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 2005, we raised an aggregate of $1,575,000 through five financing transactions. In February 2006, we completed an additional financing transaction, which provided us with $250,000 in funding. While this additional

funding may meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. We have yet to realize an operating profit at our Plum Mine location. As disclosed in the report of our independent registered public accounting firm in our financial statements included in this Form 10-KSB for the year ended December 31, 2005, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

Furthermore, the litigation in which our Company has been involved since late 2004 has strained the Company's financial resources. (See Part I, Item 3, "Legal Proceedings," for a detailed discussion.) If we are unable to resolve the litigation in the near future, the ongoing legal costs may impact our ability to continue as a going concern.

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

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

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

On July 15, 2005, we completed a financing transaction, which provided us with $800,000 in funding. In consideration for the financing, we issued promissory notes with a face value of $1.2 million, reflecting an original issue discount of thirty-three and one-third (33.3%) percent. The term of the notes is two years, with an optional extension of one year at the option of the investor. The annual interest rate on the notes is 15% of the face value and is payable monthly. On September 28, 2005, we completed another financing transaction under the same terms and conditions as the July 2005 financing. The September 2005 financing provided us with $200,000 in funding. We have not made the monthly interest payments on these notes, and thus we are in default. The default interest rate on these notes is 22%.

We are working with the above-referenced note holders to cure the defaults. The above referenced notes have a total value of approximately $14,680,000 at December 31, 2005. The total principal and interest arrearage related to these notes was approximately $6,441,000 as of December 31, 2005. While failure to reach a resolution would likely cause us to seek external funding in order to meet our obligations, there can be no assurance that such funding would be available.

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

The aggregate proceeds from 2005 financing transactions totaled $1,575,000.

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

We expect to expand our existing leach pads, which currently number three, to a total of five leach pads during 2006. The cost of this expansion will be approximately $600,000. We intend to finance our leach pad expansion project and any other capital expenditures in 2006 through the issuance of debt or equity instruments to existing shareholders and other parties. There can be no assurance that such financing will be available.

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

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

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

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
Christopher L. Aguilar	43	Chairman of the Board of Directors
Todd S. Brown	49	Director, Audit Committee Chair
Stanley A. Hirschman	59	Director, Compensation Committee Chair
William J. Nance	62	Director
Rex L. Outzen	52	Director
Robert T. Faber	46	President, Chief Executive Officer, and acting- Chief Financial Officer

Christopher L. Aguilar has been a director of our Company since October 2004. Mr. Aguilar has been the General Counsel and Chief Compliance Officer of Merriman Curhan Ford & Co., a securities brokerage and investment banking subsidiary of MCF Corporation since March 2000. During the same period of time, he also served as General Counsel and Secretary of MCF Corporation, the publicly traded financial services holding Company that provides institutional sales and trading, research, investment banking, corporate services, and asset management services through its wholly owned subsidiaries. From August 1995 to March 2000, Mr. Aguilar was a partner at Bradley, Curley & Asiano, a law firm located in San Francisco, California. Mr. Aguilar is an adjunct professor at the University of California, Hastings College of the Law.

Todd S. Brown has been a director of our Company since October 2004. Mr. Brown has been a senior financial executive with Brown Capital Advisors, Inc., an advisory services Company providing a wide range of services, including strategic planning, transactional assistance, due diligence, and financial management since 1999. Prior to joining Brown Capital Advisors, Mr. Brown was Senior Vice President, Chief Financial Officer, and a director of the

Phoenix Restaurant Group, Inc. from 1994 to 1999. Mr. Brown previously was employed by an international accounting firm for 14 years, most recently as a senior manager.

Stanley A. Hirschman has been a director of our Company since October 2004. Mr. Hirschman has served since 1996 as President of CPointe Associates, Inc., an executive management consulting firm that specializes in solutions for companies with emerging technology-based products. He is Chairman of the Board of Bravo Foods International, a director of 5G Wireless Communications and iWorld Projects & Systems, an advisor to Redwood Grove Capital Management, LLP, and former chairman of Mustang Software, Inc. Prior to establishing CPointe Associates in 1996, he was Vice President Operations of Software Etc., Inc., a 396 retail store software chain. He also held senior management positions with T.J. Maxx, Gap Stores, and Banana Republic.

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.

Rex L. Outzen has been a director of our Company since October 2005. Mr. Outzen is a metallurgical engineer with over 25 years of experience in the mining industry. Since 1999, he has been an independent consultant providing metallurgical engineering advice and services to the mining industry. Prior to 1999, Mr. Outzen held senior management positions, both domestically and internationally with Dayton Mining Corp., MinVen Gold Corp., Tenneco Minerals Company, ASARCO INC. and Metallica Resources. Mr. Outxen holds a B. Sc. In Metallurgical Engineering from the University of Utah.

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.

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 Messrs. Todd S. Brown, Stanley A. Hirschman, William J. Nance and Rex L. Outzen are independent directors, as "independence" is defined by Nasdaq, because they have no relationship with us that would interfere with their exercise of independent judgment. Mr. Aguilar is an officer of our principal investment banking firm.

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 Messrs. Brown, Nance, and Outzen, each of whom 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. Brown (whose background is detailed above) qualifies as an "audit committee financial expert" in accordance with applicable rules and regulations of the SEC. Mr. Brown 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. The Compensation Committee currently consists of Messrs. Hirschman, Aguilar and Outzen, with Mr. Hirschman serving as Chairman.

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 Messrs. Aguilar, Hirschman and Nance, with Mr. Aguilar serving as Chairman.

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.

The Board of Directors held a total of eight meetings during the fiscal year ended December 31, 2005. The Audit Committee met separately at three meetings during the fiscal year ended December 31, 2005. The Compensation Committee held a total of two meeting during the fiscal year ended December 31, 2005. The Nominations and Corporate Governance Committee held a total of two meetings during the fiscal year ended December 31, 2005. Each of our directors attended at least 75% of the aggregate of (1) the total number of meetings of our Board of Directors held during fiscal 2005, and (2) the total number of meetings held by all committees of our Board of Directors on which such person served during fiscal 2005.

Compensation of Directors

Prior to the election of a new slate of directors on October 26, 2005, we had an arrangement to pay our independent directors $3,000 a month, and the Chairman of the Audit Committee $4,000 a month. We are in arrears on these payments. The arrearage totals $52,500. We have not entered into a compensation agreement with the current slate of directors. We reimburse the members of our Board of Directors for actual expenses incurred in attending board meetings.

With the exception of the employment agreement for Robert T. Faber described below, our officers and directors do not have employment agreements or consulting agreements relating to termination of employment or change-in-control agreements.

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

	Annual Compensation(1)			Long-Term Compensation Awards Securities Underlying	All Other Compensation
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Options (#)(2)**	**($)**
Robert T. Faber(2) (3)	2005	$120,000	$0	0	$0
President and Chief	2004	$115,000	$10,000	0	0
Executive Officer; Chief Financial Officer	2003	$33,000	$0	0	0

(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) $25,000 of Mr. Faber's 2005 salary has not yet been paid. We intend to pay this amount in 2006.

Stock Options

We did not grant stock options to directors, officers, or employees in 2005. There were no shares of common stock underlying unexercised stock options at December 31, 2005.

Employment Agreements

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

The employment agreement with Mr. Faber contains a covenant not to compete with our company for a period of two years immediately following termination of employment. We may terminate Mr. Faber for "cause" as defined in the employment agreement. We will be required to pay Mr. Faber's compensation during the term of the agreement if we

terminate him without cause.

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, 2006 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 Number(1)	Percent(2)
Directors and Executive Officers:		
Robert T. Faber (1) (2)	2,054,683	0.4%
Christopher L. Aguilar	157,775	0.01%
Todd S. Brown		0.0%
Stanley A. Hirschman		0.0%
Bill Nance		0.0%
Rex Outzen		0.0%
All directors and executive officers as a group (six persons)	2,212,458	0.4%
5% Shareholders:		
John W. Winfield(4)	464,876,252	46.6%
Stephen B. Parent (1)	45,962,750	8.6%
Longview Equity Fund and Longview International Equity Fund (5)	75,108,939	12.4%
Jubilee Investment Trust (6)	39,500,000	7.4%
Capital Ventures International (7)	49,118,642	8.5%
Longview Fund, L.P. (8)	54,513,526	9.3%

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(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. This program is still in place, and Mr. Faber continues to purchase shares on a monthly basis

(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, 44th Floor, San Francisco, California 94111.

(6) The address for Jubliee Investment Trust and Pearl Corporate Finance Limited is One Great Cumberland Place, London W1H 7AL.

(7) The address for Capital Ventures International is c/o Heights Capital Management, 101 California St., Suite 3250, San Francisco, CA 94111.

(8) The address for Longview Fund, L.P. is c/o Viking Asset Management, LLC, 600 Montgomery Street, 44th Floor, San Francisco, California 94111.

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, 2005	F - 3
Consolidated Statements of Operations for the years ended December 31, 2005 and 2004	F - 5
Consolidated Statements of Changes in Stockholders' Equity for the year ended December 31, 2005 and 2004	F - 6
Consolidated Statements of Cash Flows for the year ended December 31, 2005 and 2004	F - 7
Notes to Consolidated Financial Statements	F-9-21

(2) Exhibits filed as part of this Report:

Exhibit Number	Exhibit
23.1	Consent of Jewett, Schwartz & 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

(b) Reports filed on Form 8-K during the quarter ended December 31, 2005:

None.

Item 14. Principal Accountants Fees and Services

The aggregate fees billed to our company by Jewett Schwartz, for the fiscal years ended December 31, 2004 and December 31, 2005, are as follows:

	2004	2005
Audit fees	$ 28,500	$ 32,000
Audit-related fees	0	$ 14,000
Tax fees	0	0
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 Todd Brown.

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.

GoldSpring, Inc.

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

Signature	Capacity	Date
/s/ Christopher L. Aguilar Christopher L. Aguilar	Chairman of the Board	__________, 2006
/s/ Robert T. Faber Robert T. Faber	President, Chief Executive Officer (Principal Executive Officer), and Chief Financial Officer (Principal Accounting and Financial Officer)	__________, 2006
/s/ Todd S. Brow Todd S. Brown	Director	__________, 2006
/s/ Stanley A. Hirschman Stanley A. Hirschman	Director	__________, 2006
/s/ William J. Nance William J. Nance	Director	__________, 2006
/s/ Rex L. Outzen Rex L. Outzen	Director	__________, 2006

GOLDSPRING, INC.

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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, 2005 and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the years ended December 31, 2005 and 2004. 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, 2005, and the results of its operations and its cash flows for the years then ended 2005 and 2004 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1 to the financial statements, the Company has incurred recurring operating losses and has a working capital deficit at December 31, 2005. The Company is working on various alternatives to improve the Company's financial resources which are also described in Note 1. Absent the successful completion of one of these alternatives, the Company's operating results will increasingly become uncertain. These conditions raise substantial doubt about the Company's ability to continue as a going concern; however, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

The financial statements as of and for the year ended December 31, 2004 have been restated to account for certain costs incurred in the development of the mining facility previously capitalized to exploration or test mining costs and shareholders' equity have been restated to reinstate the convertible notes payable all further described in Note 1 to the financial statements.

/s/ Jewett, Schwartz & Associates
Jewett, Schwartz, & Associates

Hollywood, Florida
March 23, 2006

GOLDSPRING, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2005
ASSETS	
Current Assets:	
Cash and cash equivalents	26,865
Prepaid expenses and other current assets	27,500
Inventories	52,000
Deferred financing fees, net	476,150
Total Current Assets	582,515
PLANT, EQUIPMENT, AND MINERAL PROPERTIES	
Mineral properties	1,669,837
Plant and Equipment	1,007,416
Total Property and Equipment	2,677,253
OTHER ASSETS	
Reclamation deposit	377,169
Equipment purchase deposit	
Other	70,000
Total Other Assets	447,169
Total Assets	$ 3,706,937

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

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GOLDSPRING, INC.
LIABILITIES AND STOCKHOLDERS' DEFICIENCY

	December 31, 2005
CURRENT LIABILITIES	
Accounts payable	1,270,074
Accrued expenses	360,886
Accrued liquidated damages	1,913,418
Accrued interest payable	1,321,919
Short-term lease obligations	28,870
Convertible debentures	13,461,941
Promissory Notes	2,075,000
Other notes payable & current portion of long-term debt	423,108
Total Current Liabilities	20,855,216
LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES	
Long-term debt, net of current portion	130,243
Long-term lease obligation, net of current portion	77,846
Long-term reclamation liability	553,190
Total long-term debt and other Long-term Liabilities	761,279
Total Liabilities	21,616,495
STOCKHOLDERS' DEFICIT	
Common stock, $.000666 par value, 500,000,000 shares authorized, 325,047,122 and 171,120,482 shares issued and outstanding	216,481
Treasury Stock	(67)
Additional paid-in capital	5,398,330
Accumulated deficit - Prior years	(12,171,276)
Accumulated deficit - Current year	(11,353,026)
Total Stockholders' Deficiency	(17,909,558)
Total Liabilities and Stockholders' Deficiency	$ 3,706,937

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

GOLDSPRING, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2005	(As Restated) 2004
Revenue from gold sales, net	$ 2,632,112	$ 955,380
Cost and Expenses		
Costs applicable to sales (exclusive of depreciation and amortization shown separately below)		
Depreciation and amortization	302,753	219,834
Reclamation, Exploration and Test Mining Expenses	4,810,643	6,800,011
General and Administrative	1,183,255	1,430,596
Consultants and Professional Fees	773,390	659,931
	7,070,041	9,110,372
Other Income (Expense):		
Liquidated damages expense (See Note 11)	(4,619,144)	(1,627,308)
Gain on derivative investments, net	---	238,620
Interest income	13,526	40,142
Interest expense	(2,309,479)	(65,997)
	(6,915,097)	(1,414,543)
Net Loss:	(11,353,026)	(9,569,535)
Net loss per common share - basic	(0.045)	$ (0.051)
Basic weighted average common shares outstanding	252,930,064	186,800,478

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

GOLDSPRING, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
For the Years Ended December 31, 2005 and 2004

(Common Stock Par value, $.000666 per share; 800,000,000 shares authorized)

	Shares Issued	Shares Issued -Forward Stock Split	Total Shares Issued After Forward Stock Split	Par value $.000666 per share	Additional Paid-in Capital	Treasury Stock (at cost)	Accumulated Deficit	**Total**
Balance - December 31, 2003, Restated	161,198,576	15,627,654	172,627,149	114,970	4,327,420	-	(2,601,741)	1,840,649
Issuance of common stock for cash, net of issuance costs			22,182,462	14,773	9,414,008			9,428,781
Common stock issued for consulting services			50,000	33	41,967			42,000
Repurchase and retirement of common stock			(2,000,000)	(1,332)	(148,668)			(150,000)
Stock buyback and return to treasury					(74,933)	(67)		(75,000)
November Restructuring			(21,739,129)	(14,478)	(9,985,522)			(10,000,000)
Net loss							(9,569,535)	(9,569,535)
Balance - December 31, 2004, Restated	155,492,828	15,627,654	171,120,482	113,966	3,574,272	(67)	(12,171,276)	(8,483,105)
Mandatory redemption			-0-	-0-	(3,457,182)			(3,457,182)
March 2005 liquidated damages			59,203,484	39,430	1,736,674			1,776,104
August 2005 liquidated damages			35,103,534	23,379	1,029,727			1,053,106
			3,444,444	2,294	167,706			170,000

Common Stock issued for mining property						
Common stock issued for debenture principal	28,201,478	18,782	1,100,212			1,118,994
Common stock issued for debenture interest	23,729,909	15,804	771,871			787,675
December 2004 conversion shares issued in 2005	4,243,791	2,826	475,050			477,876
Net loss					(11,353,026)	(11,353,026)
Balance, December 31, 2005	325,047,122	216,481	$ 5,398,330	(67)	$ (23,524,302)	$ (17,909,558)

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

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GOLDSPRING, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2005	2004 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,353,026)	$ (9,569,535)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	445,193	219,834
Liquidated damages from March 2004 financing and November 2004 restructuring	4,619,144	1,627,308
Consulting services provided in exchange for common stock		42,000
(Increase) decrease in operating assets:		
Inventories	236,688	(288,688)
Prepaid and other current assets	7,705	290,360
Other current assets	100,000	
Increase (decrease) in operating liabilities:		
Accounts payable	677,275	480,847
Accrued expenses	2,803,339	216,902
Reclamation liability		553,190
Other	(541,472)	(13,934)
Total Adjustments to Reconcile Net Loss Used in Operating Activities	8,347,872	3,127,819
Net cash used in operating activities	(3,005,154)	(6,441,716)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Reclamation bond deposit		(232,169)
Equipment / acquisition deposit	(50,000)	(10,000)
Acquisition of plant and equipment	(150,390)	(532,232)
Net used in investing activities	(200,390)	(774,401)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from the issuance of common stock		9,428,781
Principal payments on Note Payable	(294,393)	(400,000)
Purchase and cancellation of Company's Common Stock		(150,000)
Purchase of Company's Common Stock and returned to treasury		(75,000)
Proceeds from the issuance of note payable to related party	1,575,000	
Net cash provided by financing activities	1,280,607	8,803,781
Net increase in cash and cash equivalents	(1,924,937)	1,587,664
Cash and cash equivalents, beginning of year	1,951,802	364,138
Cash and cash equivalents, end of year	$ 26,865	$ 1,951,802

Supplemental disclosure of non-cash investing and financing activities:

Issuance of notes for liquidated damages for failure to deliver shares	$	403,175	$	-
Issuance of notes for mandatory redemption payment plus accrued interest	$	6,885,184	$	-
Issuance of company stock for acquisition of mining claims	$	170,000	$	-
Issuance of company stock for interest	$	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	$	1,118,994	$	-
Purchase of assets under capital leases	$	-	$	168,202
Purchase of assets by long-term debt	$	-	$	63,269
Convertible notes issued in connection with the Nov. 2004 restructuring	$	-	$	11,100,649

Note 1 — Summary of Significant Accounting Policies

Summarized below are the significant accounting policies of GoldSpring, Inc. (“we,” “GoldSpring,” or the “Company”)

We were incorporated in the state of Florida effective October 19, 1999 under the name of Click and Call, Inc.. On June 7, 2000, we filed an amendment to our Articles of Incorporation changing our name to STARTCALL.COM, INC. On March 10, 2003, we changed our name to GoldSpring, Inc. The primary nature of our business is the exploration and development of mineral producing properties.

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

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

Unless otherwise indicated, amounts provided in these notes to the financial statements pertain to continuing operations.

Restatement of Financial Statements

Our 2004 financial statements have been restated as follows:

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

GOLDSPRING, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2005 and 2004

The effect of the restatements on the December 31, 2004 consolidated statement of operations is as follows

	As Previously Reported	Effect of Restatement	As Restated
Mineral Properties	$ 1,729,885	($395,048)	$ 1,334,837
Plant, Property and Equipment	$ 5,171,863	$ (4,012,083)	$ 1,159,780
ARO/Reclamation Liability	$ 470,803	$ 82,387	$ 553,190
Net Loss	($5,080,016)	($4,489,519)	($9,569,535)
Net Loss per share	($0.3)	($0.02)	($0.05)

Note 1 — Summary of Significant Accounting Policies - Continued

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, 2005 and 2004.

Credit Risk

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

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

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of"

and the accounting and reporting provisions of Accounting Practice Bulletin (“APB”) Opinion No. 30, “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” for the disposal of a segment of a business (as previously defined in that opinion).This statement establishes the accounting model for long-lived assets to be disposed of by sale and applies to all long-lived assets, including discontinued operations. This statement requires those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred.

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SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. We adopted SFAS No. 144 in our evaluation of the fair value of certain assets described in Notes 2 and 3.

Inventories

We state inventories at the lower of average cost or net realizable value. At December 31, 2005 and 2004, our inventories consisted of $52,000 and $239,943, respectively, of doré and bullion in our accounts at refineries. At December 31, 2004 we had $48,744 of supplies and reagents compared to $0 at December 31, 2005. We were unable to estimate our in-process inventories at December 31, 2004, as our gold production processes are still in their inception stage, and we do not yet have sufficient data available to accurately calculate in-process inventory. We value inventories at the lower of full cost of production or net realizable value based on current metals prices. We determine net realizable value by estimating value based on current metals prices, less cost to convert stockpiled and in-process inventories to finished products.

Note 1 — Summary of Significant Accounting Policies — Continued

Revenue Recognition

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

Stock Issued For Services

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

Deferred Financing Charges

During 2005 we recorded deferred financing charges associated with the issue of promissory notes payable totaling $614,590. We amortize the charges over the respective lives of the promissory notes payable as interest expense. During the year ended December 31, 2005 we recognized $142,400 of interest expense related to the amortization of deferred financing fees.

Plant and Equipment

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

We capitalize expenditures for renewals and improvements that significantly extend the useful life of an asset. We charge expenditures for maintenance and repairs to operations when incurred. When assets are sold or retired, the cost

of the asset and the related accumulated depreciation are removed from the accounts and any gain or loss is recognized at such time. We use the straight-line method of depreciation for financial reporting purposes, depreciating assets over useful lives ranging from 3 to 7 years.

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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 Financial Accounting Standards Board (FASB) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

Note 1 — Summary of Significant Accounting Policies — Continued

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

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

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

Reclamation Liabilities and Asset Retirement Obligations

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

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

SFAS 143 established a uniform methodology for accounting for estimating reclamation and abandonment costs. The Standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. SFAS No. 143 requires us to record a liability for the present value of our estimated environmental remediation costs and the related asset created with it when a recoverable asset (long-lived asset) can

be realized. In our case, the long-lived asset is directly related to the mining infrastructure costs being expensed by our Company. Since we do not yet have proven or probable reserves as defined by Industry Guide 7, and in accordance with FASB No. 143 our asset retirement obligation was expensed directly to reclamation expense.

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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 loss per share is presented.

Recent Authoritative Pronouncements

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

Note 1 — Summary of Significant Accounting Policies — Continued

currently account for share-based payments to employees using APB 25's intrinsic value method. We expect to adopt Statement 123(R) on January 1, 2006 using the modified prospective method.

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

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

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenditures during the reported periods. Actual results could differ materially from those estimates. Estimates may include those pertaining

to the estimated useful lives of property and equipment and software, determining the estimated net realizable value of receivables, and the realization of deferred tax assets.

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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 2 — Mineral Properties

At December 31, 2005 and December 31, 2004, our mineral properties consisted of the following:

MINERAL PROPERTIES:		**Dec. 31, 2005**	**Dec. 31, 2004**
Placer Gold Properties	$	100,000	100,000
Big Mike Copper Property		119,138	119,138
Plum Gold Properties		1,360,699	1,025,699
Water rights		90,000	90,000
Balance	$	1,669,837	1,334,837

Note 2 — Mineral Properties - Continued

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.

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.

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 3 — Plant, Property and Equipment

At December 31, 2005 and December 31, 2004, plant, property and equipment consisted of the following (See Note 1):

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	Dec. 31, 2005	Dec. 31, 2004
Plant, Property and Equipment at Plum Mine location	$ 1,504,309	$ 1,364,789
Equipment, Corporate	18,195	14,825
Less Accumulated Depreciation	(515,087)	(219,834)
Balance at 12/31/05	$ 1,007,417	$ 1,159,780

Included in plant, property and equipment at our Plum Mine location at December 31, 2005, is equipment under capital lease of $167,636. Future minimum lease payments for the related obligation under capital lease are $34,772 for 2006, $32,772 for 2007, and $43,210 for 2008. We recorded depreciation expense on equipment under capital lease totaling $33,527 during the year ended December 31, 2004.

Note 4 — 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 $553,000, 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 $553,000 as of December 31, 2005, 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 5 — 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 is payable in ten quarterly payments through June 2006.

During 2005 we purchased certain mining claims that were near or contiguous to our Plum Gold Property (See Note 2). In connection with the purchase we issued a note payable of $160,000. The note is payable in quarterly installments of $16,000 and is payable in its entirety on or before March 31, 2007.

At December 31, 2005 and December 31, 2004, our balance owing on mineral property notes payable was as follows:

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		Dec. 31, 2005		Dec. 31, 2004
Balance	$	510,000	$	600,000
Less current portion		414,000		(400,000)
Non-current portion	$	$96,000	$	200,000

Note 6 —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.

Note 6 —Convertible Debentures and Notes Payable - Continued

As a result, and effective November 30, 2004, we restructured the private placement transaction and entered into a new subscription agreement. In connection with the restructuring, we exchanged 8% convertible notes in the aggregate principal amount of approximately $11.1 million and four-year warrants to purchase approximately 27.8 million shares of common stock at an exercise price of $0.20 per share, subject to anti-dilution adjustments, for 21,739,129 shares of common stock and 21,739,129 warrants to purchase shares of common stock issued in the March Offering. The principal amount of the convertible notes consist of the original $10.0 million investment plus approximately $1.1 million of accrued penalties associated with the delay in effectiveness of our registration statement covering the resale of the shares of common stock held by the investors. (See Notes 9 and 12).

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

On April 1, 2005, we failed to make our first payment on the notes and were in default of the terms of the convertible notes. On December 20, 2004, we received notice from holders of approximately $3.8 million of convertible notes of their intention to convert into shares of our common stock. The applicable conversion rate was approximately $0.11 per share, and we were obligated to issue 33,817,594 shares of our common stock. Under the terms of the subscription agreement, we had three business days following receipt of the notice of conversion of notes to deliver to the note holders’ free-trading common stock certificates (the “Delivery Date”). Although the shares were due to be delivered in December 2004, they were not delivered until 2005. As a result of our failure to deliver shares, we were subject to liquidated damages that were settled by the issuance of notes payable to the investors.

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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 (See Note 12). The Debentures are subject to various covenants and conditions, including, but not limited to anti-dilution rights and protective rights.

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

Note 6 —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 is 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 5) in substantially all of our assets.

Mandatory Registration Rights

The terms of the Debenture agreement require that we must file with the Securities and Exchange Commission on a Form SB-2 registration statement, or such other form that we are eligible to use, to register the Conversion Shares, together with any other shares of Common stock issuable hereunder for resale and distribution under the 1933 and cause to be filed not later than April 30, 2005 and declared effective not later than June 30, 2005. If we fail to make effective a registration statement we are subject to liquidated damages, an amount equal to two percent (2%) for each

thirty (30) days or part thereof, thereafter of the principal amount of the Debenture remaining unconverted and purchase price of Conversion Shares issued upon conversion of the Debenture owned of record by the holder. The Company must pay the liquidated damages in cash or an amount equal to two hundred percent of such cash liquidated damages if paid in additional shares of registered un-legended free trading shares of common stock. As of December 31, 2005 we had failed to make any monthly payments on the debentures and are in default.

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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

Accordingly, at December 31, 2005 and December 31, 2004, we classified the following convertible debentures as current liabilities as follows:

	Dec. 31, 2005	**Dec. 31, 2004**
Convertible Debentures Payable-Investors	$ 6,220,409	$ 11,100,649
Convertible Debentures Payable- Mandatory Redemption payment	6,885,184	–
Convertible Debentures Payable- Failure to Deliver Shares	$ 356,348	$ –
Total	$ 13,461,941	$ 11,100,649

Note 7 —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.

Note 7 —Promissory Notes Payable - Continued

The notes are collateralized by substantially all of the Company's assets subject to the security interest of the Brockbank Trust (See Note 5). As of December 31, 2005 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 5) 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, 2005 we had failed to make any monthly payments on the notes and are in default.

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Promissory Notes Payable—December Financing

In December of 2005, we borrowed $575,000 from Longview Fund L.P., a major shareholder. The notes accrue interest at 16% per annum, are uncollateralized and are payable including accrued interest on or before March 15, 2006.

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

		Dec. 31, 2005
Promissory Notes Payable-July Financing	$	1,200,000
Promissory Notes Payable-September Financing		300,000
Promissory Notes Payable-December Financing		575,000
Total	$	2,075,000

Note 8 —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, 2004 and December 31, 2003, we had the following amounts due under the financings as follows:

		Dec. 31, 2005		Dec. 31, 2004
Long-term Debt-Current Plum Mine	$	350,000	$	400,000
Long-term Debt-Current Seller Note		64,000		---
Other Long-term Debt-Current	$	9,108	$	21,127
Total	$	423,108	$	421,127

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	Dec. 31, 2005	Dec. 31, 2004
Long-term Debt-non current Plum Mine	$ –	$ 200,000
Long-term Debt-non current Seller Note	96,000	–
Other Long-term Debt -Non-current	34,243	43,858
Total	$ 130,243	$ 243,858

Note 8 —Other Long-term Debt-Continued

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

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

Convertible Notes Payable-Failure to Deliver Shares

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

Conversion Rights

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

Borrower’s Repayment Election.

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

On April 1, 2005, we failed to make our first payment on the convertible debentures and were in default of the terms of the convertible notes. At December 31, 2005 and December 31, 2004 we classified the following notes payable as current liabilities as follows:

	Dec. 31, 2005	Dec. 31, 2005
Convertible Notes Payable	$ 13,461,941	$ 11,100,649
Promissory notes	2,075,000	–
Total	$ 15,536,941	$ 11,100,649

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Note 9 — 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

Note 9 — Liquidated Damages-Continued

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 (see Note **6**)

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, 2005 and December 31, 2004 as follows:

Liquidated damages relating to:		**Dec. 31, 2005**	**Dec. 31, 2004**
Non-Registration Provisions	$	4,520,615	1,322,662
Failure to timely deliver shares upon notice of converting note holders		98,529	304,646
	$	4,619,144	1,627,308

At December 31, 2005 we had accrued $1,913,418 of liquidated damages payable in our other accrued liabilities.

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Note 10 — Income Taxes

We did not provide any current or deferred US federal or state income tax provision or benefit through the years ended December 31, 2005 and 2004, because we have experienced operating losses since our inception. We have provided a full valuation allowance on the deferred tax asset, consisting primarily of a net operating loss, because of the uncertainty regarding its being realizable…

At December 31, 2005 and 2004, we had a net operating loss carry forwards of approximately $11.4 and $9.8 million, respectively. Utilization of our net operating losses, which begin to expire in year 2024, 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. Due to the change in the nature of our operations and the expected likelihood that the net operating loss carry forwards may be utilized, we have elected to recognize a deferred tax benefit offset by an equal valuation allowance of approximately $3.9 and $3.4 million, respectively, for the years ended December 31, 2005 and 2004, respectively.

Note 11 - Related Party Transactions

In addition to the related party transactions discussed in Notes 6,7,8 and 12, we had the following transactions with related parties:

On November 9, 2004, we filed a lawsuit in Maricopa County (Arizona) Superior Court against Stephen B. Parent, our former CEO and one of our directors. The complaint alleges that the director

Note 11 - Related Party Transactions - Continued

misrepresented the value of certain placer mining claims that his company sold to us in 2003 in exchange for approximately 99,000,000 shares of our stock; that his company no longer had good title to the claims when they were sold to us; and that the director incurred $307,190 in accountable expenses. We have asked, and given the director the opportunity, to provide appropriate documentation for any portion of the $307,190 that he believes to be legitimate business expenses. The $307,190 includes debit card withdrawals, credit card charges using the company's accounts, a retainer to the director's personal attorney and two laptop computers that the director has not returned to the company. As of April 14, 2005, we have received documentation from the director and are in the process of reviewing the material to evaluate whether the documentation is sufficient to support the expenses as legitimate business expenses. We are seeking the return of the portion of the funds that cannot be documented as legitimate business expenses and a return of the approximately 45 million shares of our common stock that the director received in 2003 in exchange for the mining claims.

Note 12 — Stockholders' Equity

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.

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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.

Common Stock issued for Convertible Debenture Principal and Interest

During 2005 the Company issued 28,201,478 and 23,729,909 shares of its restricted common stock in connection with the conversion of $1,118,994 and $787,675 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

Note 12 — Stockholders' Equity - Continued

$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.

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Common Stock Issued to Related Party for Services

During 2004, we issued 50,000 shares of our restricted common stock to a director in exchange for services. The value of the common stock issued approximated the expense of the services we recognized.

Common Stock Issued for Cash

During 2004, we issued 22,182,462 shares of our common stock for cash totaling $9,428,781, net of direct issuance costs.

Common Stock Purchased

During 2004, we purchased 2,000,000 shares of our common stock for $150,000 and cancelled the shares.

Common Stock Retired to Treasury

During 2004, we purchased 100,000 shares of our common stock for $75,000 and returned them to the treasury.