

GOLDSRING INC  
Form 10-Q  
August 14, 2009

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2009

OR

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

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

Commission File No. 000-32429

GOLDSRING, INC.

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

FLORIDA  
(State or other jurisdiction of  
incorporation or organization)

1081  
(Primary Standard Industrial  
Classification Code Number)

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

P.O. Box 1118  
Virginia City, NV 89440  
(Address of principal executive offices)  
(775) 847-5272

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  Not applicable.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares of Common Stock, \$0.000666 par value, of the registrant outstanding at August 3, 2009 was 3,609,751,058.



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## Statement Regarding Forward-Looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. The statements contained in this report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of applicable securities laws. Forward-looking statements include statements regarding our "expectations," "anticipation," "intentions," "beliefs," or "strategies" regarding the future. Forward looking statements also include statements regarding fluctuations in the price of gold or certain other commodities, (such as silver, copper, diesel fuel, and electricity); changes in national and local government legislation, taxation, controls, regulations and political or economic changes in the United States or other countries in which we may carry on business in the future; business opportunities that may be presented to or pursued by us; our ability to integrate acquisitions successfully; operating or technical difficulties in connection with exploration or mining activities; the speculative nature of gold exploration, including risks of diminishing quantities or grades of reserves; and contests over our title to properties. All forward-looking statements included in this report are based on information available to us as of the filing date of this report, and we assume no obligation to update any such forward-looking statements. Our actual results could differ materially from the forward-looking statements. Among the factors that could cause actual results to differ materially are the factors discussed in Item 1A of Part II, "Risk Factors."



## PART I.

## Item 1. Financial Statements.

GOLDSRING, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | June 30,<br>2009<br>(Unaudited) | December 31,<br>2008<br>(Audited) |
|--|---------------------------------|-----------------------------------|
| <b>ASSETS</b>                                    |                                 |                                   |
| <b>CURRENT ASSETS</b>                            |                                 |                                   |
| Cash and cash equivalents                        | \$ 417,118                      | \$ 322,938                        |
| Other current assets, net                        | 521,156                         | -                                 |
| <b>Total Current Assets</b>                      | <b>938,274</b>                  | <b>322,938</b>                    |
| <b>MINERAL RIGHTS, PLANT AND EQUIPMENT</b>       |                                 |                                   |
| Mineral rights                                   | 1,530,547                       | 1,530,547                         |
| Plant and equipment, net                         | 695,664                         | 489,236                           |
| <b>Total Mineral Rights, Plant and Equipment</b> | <b>2,226,211</b>                | <b>2,019,783</b>                  |
| <b>DEBT DISCOUNT</b>                             | <b>977,167</b>                  | <b>-</b>                          |
| <b>RECLAMATION BOND DEPOSIT</b>                  | <b>766,768</b>                  | <b>766,768</b>                    |
| <b>OTHER LONG-LIVED ASSETS</b>                   | <b>374,174</b>                  | <b>408,190</b>                    |
| <b>TOTAL ASSETS</b>                              | <b>\$ 5,282,594</b>             | <b>\$ 3,517,679</b>               |

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

GOLDSRING, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

|   | June 30,<br>2009<br>(Unaudited) | December 31,<br>2008<br>(Audited) |
|---|---------------------------------|-----------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>   |                                 |                                   |
| <b>CURRENT LIABILITIES</b>  |                                 |                                   |
| Accounts payable  | \$ 1,686,575                    | \$ 1,222,933                      |
| Accrued expenses  | 221,918                         | 121,750                           |
| Accrued interest payable  | 3,727,041                       | 3,458,734                         |
| Convertible debentures  | 10,187,966                      | 10,187,966                        |
| Other debt  | 2,654,540                       | 2,660,565                         |
| Total Current Liabilities   | 18,478,040                      | 17,651,948                        |
| <b>LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES</b>   |                                 |                                   |
| Long-term convertible debt obligation, net of current portion   | 4,282,563                       | 2,782,563                         |
| Long-term debt obligation, net of current portion   | 620,000                         | 500,000                           |
| Derivative liability  | 6,931,800                       | 5,368,333                         |
| Long-term reclamation liability   | 1,146,154                       | 1,105,342                         |
| Total Long-Term Debt and Other Long-Term Liabilities  | 12,980,517                      | 9,756,238                         |
| <b>Total Liabilities</b>  | <b>31,458,557</b>               | <b>27,408,186</b>                 |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                 |                                   |
| <b>STOCKHOLDERS' DEFICIT</b>  |                                 |                                   |
| Common stock, \$.000666 par value 3,950,000,000 shares authorized, shares issued and outstanding were 3,609,251,058 (June 30, 2009) and 3,380,948,371 (Dec. 31, 2008) | 2,403,761                       | 2,251,712                         |
| Additional paid-in capital  | 26,696,170                      | 22,721,504                        |
| Accumulated deficit   | (55,275,894)                    | (48,863,723)                      |
| Total Stockholders' Deficiency  | (26,175,963)                    | (23,890,507)                      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$ 5,282,594</b>             | <b>\$ 3,517,679</b>               |

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

GOLDSRING, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | Three Months Ended June 30, |                |
|---|-----------------------------|----------------|
|   | 2009                        | 2008           |
| REVENUE FROM GOLD SALES, Net                      | \$                          | \$             |
| COST AND EXPENSES                                 |                             |                |
| Depletion, depreciation and amortization          | 37,603                      | 60,000         |
| Reclamation, exploration and test mining expenses | 642,077                     | 792,308        |
| General and administrative                        | 309,603                     | 802,805        |
| Consultants and professional fees                 | 75,000                      | 27,940         |
| Total Cost and Expenses                           | 1,064,343                   | 1,683,053      |
| LOSS FROM OPERATIONS                              | (1,064,343)                 | (1,683,053)    |
| OTHER INCOME (EXPENSE):                           |                             |                |
| Financing cost – warrant issuances                | (418,173)                   |                |
| Other, net  | (58,500)                    | (61,875)       |
| Interest expense                                  | (821,051)                   | (588,119)      |
| Total Other Expense                               | (1,297,724)                 | (649,994)      |
| NET LOSS  | \$ (2,362,067)              | \$ (2,333,047) |
| Net loss per common share – basic                 | \$ (0.0007)                 | \$ (0.0008)    |
| Basic weighted average common shares outstanding  | 3,522,895,698               | 3,078,738,543  |

The accompanying notes are an integral part of these condensed consolidated financial statements

|   | Six Months Ended June 30, |                |
|---|---------------------------|----------------|
|   | 2009                      | 2008           |
| REVENUE FROM GOLD SALES, Net                      | \$                        | \$             |
| COST AND EXPENSES                                 |                           |                |
| Depletion, depreciation and amortization          | 76,469                    | 120,000        |
| Reclamation, exploration and test mining expenses | 2,092,393                 | 1,441,401      |
| General and administrative                        | 692,217                   | 1,103,007      |
| Consultants and professional fees                 | 145,406                   | 58,959         |
| Total Cost and Expenses                           | 3,006,485                 | 2,723,367      |
| LOSS FROM OPERATIONS                              | (3,006,485)               | (2,723,367)    |
| OTHER INCOME (EXPENSE):                           |                           |                |
| Financing cost – warrant issuances                | (1,745,035)               |                |
| Other, net  | (58,500)                  | 421,303        |
| Interest expense                                  | (1,412,171)               | (1,329,310)    |
| Total Other Expense                               | (3,405,686)               | (908,007)      |
| NET LOSS  | \$ (6,412,171)            | \$ (3,631,374) |
| Net loss per common share – basic                 | \$ (0.0018)               | \$ (0.0012)    |
| Basic weighted average common shares outstanding  | 3,476,648,168             | 2,078,738,543  |

The accompanying notes are an integral part of these condensed consolidated financial statements

GOLDSRING, INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT  
 For the Quarter Ended June 30, 2009

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

|  | Common<br>Shares Issued | Par value<br>\$.000666<br>per share | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Total           |
|--|-------------------------|-------------------------------------|----------------------------------|------------------------|-----------------|
| December 31, 2007 (Restated)                       | 2,743,508,248           | \$ 1,827,177                        | \$ 12,969,210                    | \$ (32,376,040)        | \$ (17,579,653) |
| Common stock issued for:                           |                         |                                     |                                  |                        |                 |
| Debenture principal                                | 196,155,028             | 130,639                             | 1,949,634                        | -                      | 2,080,273       |
| Debenture interest                                 | 151,961,857             | 101,207                             | 1,456,497                        | -                      | 1,557,704       |
| Mineral rights                                     | 3,866,667               | 2,575                               | 76,983                           | -                      | 79,558          |
| Consulting services                                | 7,166,704               | 4,773                               | 106,323                          | -                      | 111,096         |
| Mining software                                    | 2,434,892               | 1,622                               | 8,118                            | -                      | 9,740           |
| Directors  | 20,000,000              | 13,320                              | 221,080                          | -                      | 234,400         |
| Employees  | 10,665,714              | 7,103                               | 132,787                          | -                      | 139,890         |
| Private placement                                  | 137,000,000             | 91,242                              | 1,428,758                        | -                      | 1,520,000       |
|  | 529,250,862             | 352,481                             | 5,380,180                        | -                      | 5,732,661       |
| Warrant cost and stock based option compensation   |                         |                                     |                                  |                        |                 |
|  |                         |                                     | 3,434,323                        | -                      | 3,434,323       |
| Liquidated damages                                 | 108,189,261             | 72,054                              | 937,791                          | -                      | 1,009,845       |
| Net loss   | -                       | -                                   | -                                | (16,487,683)           | (16,487,683)    |
| December 31, 2008                                  | 3,380,948,371           | \$ 2,251,712                        | \$ 22,721,504                    | \$ (48,863,723)        | \$ (23,890,507) |
| Common stock issued for:                           |                         |                                     |                                  |                        |                 |
| Debenture interest                                 | 125,202,687             | 83,385                              | 1,182,656                        | -                      | 1,266,041       |
| Employees  | 4,500,000               | 2,997                               | 55,503                           | -                      | 58,500          |
| Private placement                                  | 98,600,000              | 65,667                              | 920,333                          | -                      | 986,000         |
|  | 228,302,687             | 152,049                             | 2,158,492                        | -                      | 2,310,541       |
| Warrant cost and stocked based option compensation |                         |                                     |                                  |                        |                 |
|  |                         |                                     | 1,816,174                        | -                      | 1,816,174       |
| Net loss   | -                       | -                                   | -                                | (6,412,171)            | (6,412,171)     |
| June 30, 2009                                      | 3,609,251,058           | \$ 2,403,761                        | \$ 26,696,170                    | \$ (55,275,894)        | \$ (26,175,963) |

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

GOLDSRING, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Six Month Period Ended<br>June 30, |                    |
|---|------------------------------------|--------------------|
|   | 2009                               | 2008               |
| <b>OPERATING ACTIVITIES:</b>  |                                    |                    |
| Net loss  | \$ (6,412,171)                     | \$ (3,631,374)     |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                    |                    |
| Depreciation and amortization   | 76,469                             | 350,833            |
| Stock warrants and stock based compensation                                 | 1,874,674                          | 533,000            |
| Interest and liquidated damages paid through the issuance of stock          | 1,266,041                          | 1,709,911          |
| Accretion and debt discount interest  | 105,596                            |                    |
| Payments through the issuance of company stock                              | 83,500                             | 358,380            |
| Derivative change fair value, net   |                                    | 130,604            |
| Net loss adjusted for non-cash operating activities                         | (3,005,531)                        | (548,646)          |
| Changes in operating assets and liabilities:                                |                                    |                    |
| Prepaid and other current assets  |                                    | 20,834             |
| Accounts payable  | 463,641                            | 98,969             |
| Accrued expenses  | 368,476                            | (1,767,544)        |
| Other operating assets and liabilities                                      |                                    |                    |
| Other   | 4,999                              | 151,192            |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                | <b>(2,168,415)</b>                 | <b>(2,045,195)</b> |
| <b>INVESTING ACTIVITIES:</b>  |                                    |                    |
| Mineral claims  |                                    | (39,220 )          |
| Acquisition / sale of plant and equipment                                   | (128,880)                          | (18,041)           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                | <b>(128,880)</b>                   | <b>57,261)</b>     |
| <b>FINANCING ACTIVITIES:</b>  |                                    |                    |
| Principal payments on Note Payable  | (6,025)                            | (12,297)           |
| Net proceeds from the issuance of company stock                             | 902,500                            | 500,000            |
| Proceeds from the issuance of note payable                                  | 1,495,000                          | 1,000,000          |
| <b>NET CASH PROVIDED BY FINANCING ACIVITIES</b>                             | <b>2,391,475</b>                   | <b>1,487,703</b>   |
| <b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALANTS</b>                     | <b>94,180</b>                      | <b>195,089</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                         | <b>322,938</b>                     | <b>174,996</b>     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                               | <b>\$ 417,118</b>                  | <b>\$ 370,085</b>  |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>                                  |                                    |                    |
| <b>INCOME TAXES</b>   | <b>\$</b>                          | <b>\$</b>          |
| <b>INTEREST PAID</b>  | <b>\$</b>                          | <b>\$</b>          |

GOLDSRING, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

Supplemental disclosure of non-cash investing and financing activities:

|  |              |              |
|--|--------------|--------------|
| Issuance of company stock for interest                       | \$ 1,266,041 | \$ 700,066   |
| Issuance of company stock for liquidated damages             | \$           | \$ 1,009,845 |
| Conversion of debt principal into company's common shares    | \$           | \$ 970,273   |
| Issuance of company stock to employees                       | \$ 58,500    | \$           |
| Issuance of company stock for directors' fees                | \$           | \$ 234,400   |
| Seller note for acquisition of land                          | \$ 120,000   | \$           |
| Issuance of company stock for consulting services            | \$           | \$ 114,200   |
| Issuance of company stock for software                       |              | 9,740        |
| Issuance of company shares for acquisition of mineral claims | \$           | \$ 32,490    |
| Issuance of company stock for financing fees                 | 36,000       |              |

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

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GOLDSRING, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2009 and 2008

Note 1 - Basis of Presentation

We are a North American precious metals mining company with an operating gold and silver test mine in northern Nevada. Our Company refocused as a mining company, when we acquired the Plum property in November 2003. In our relatively short history, we secured permits, built an infrastructure and brought the Plum exploration project into test mining production. Beginning in 2005, we started acquiring additional properties around the Plum project in Northern Nevada, expanding our footprint and creating opportunities for exploration. We are an emerging operating test mine company, looking to build on our success through the acquisition of other mineral properties in Comstock Lode District of Nevada with reserves and exploration potential. Our objectives are to recommence production; increase reserves through exploration and acquisitions; and expand our footprint in the Comstock Lode District.

Note 2 — Interim Financial Statements

The accompanying interim unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Note 3 — Going Concern

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Company as a going concern. However, the Company has year end losses from operations and had no revenues from operations during the six month ended June 30, 2009. During the six months ended June 30, 2009, the Company incurred a net loss of \$6,412,171. Further, the Company has inadequate working capital to maintain or develop its operations, and is dependent upon funds from private investors and the support of certain stockholders.

These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. In this regard, Management is proposing to raise any necessary additional funds through sale of royalties, loans, additional sales of its common stock and / or strategic joint venture arrangements. There is no assurance that the Company will be successful in raising additional capital especially given the current general economic conditions domestically and abroad.

Note 4 — Summary of Significant Accounting Policies

Terms and Definitions

Company                      Goldspring, Inc. and Subsidiaries

|             |   |
|-------------|---|
| APB         | Accounting Principles Board                 |
| ARB         | Accounting Review Board                     |
| EITF        | Emerging Issues Task Force                  |
| FASB        | Financial Accounting Standards Board        |
| FSP         | FASB Staff Position                         |
| Plum LLC    | Plum Mining Company, LLC                    |
| SAB         | SEC Staff Accounting Bulletin               |
| SEC         | Securities Exchange Commission              |
| SFAS or FAS | Statement of Financial Accounting Standards |
| SOP         | Statement of Position                       |

Summarized below are the significant accounting policies of Goldspring, Inc.

#### Principles of Consolidation

The consolidated financial statements include the accounts of our company and its wholly owned subsidiaries: GoldSpring, LLC, Ecovat Copper Nevada, LLC, The Plum Mining Company, LLC, and the Plum Mine Special Purpose Company LLC. All material inter-company transactions and balances have been eliminated in consolidation. Certain reclassifications have been made in the 2008 results to conform to the presentation used in 2009.

#### 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 June 30, 2009 and December 31, 2008.

## 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 FASB issued 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 APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement establishes the accounting model for long-lived assets to be disposed of by sale and applies to all long-lived assets, including discontinued operations. This statement requires those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or discontinued operations.

SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. We adopted SFAS No. 144 in our evaluation of the fair value of certain assets described in Notes 5 and 6.

## Revenue Recognition

The Company recognizes revenue in accordance with the provisions of SAB 104 "Revenue Recognition in Financial Statements", which states that revenue is realized or realizable and earned when all of the following four criteria are met:

- 1) Persuasive evidence of an arrangement exists,
- 2) Delivery has occurred or services have been rendered,
- 3) The seller's price to the buyer is fixed or determinable, and
- 4) Collectability is reasonably assured.

Specifically in our operations, sales of gold and silver dore are recorded when we issue a sales order to our refiner, Johnson Matthey, to sell a specified quantity of metals. Sales orders are typically executed within 48 hours of receipt. Upon receipt of the sale order, Johnson-Matthey confirms quantities available and executes the sale at the current market price of the metals on the day and time of the sales order. We record revenues on the day the Sales order is issued based on the confirmed quantity of metal at the confirmed market price. Proceeds from the sale of metals are typically wired to our bank within twenty-four hours.

## Stock Issued For Services

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

## Deferred Financing Charges

During the six month periods ended June 30, 2009 and 2008 we recorded deferred financing charges associated with the issue of promissory notes payable totaling \$0 and \$230,833 respectively. We amortize the charges over the respective lives of the promissory notes payable as interest expense. During the quarter ended June 30, 2009 and 2008 we recognized \$0 and \$75,000 respectively 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 15 years.

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

## Mineral Rights

We defer acquisition costs until we determine the viability of the property. Since we do not have proven and probable reserves as defined by SEC 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 mineral claim on a quarterly basis to determine whether impairment has occurred in accordance with the SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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

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

## 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 related to asset retirements we recognize the obligations in accordance with SOP No. 96-1.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 established a uniform methodology for accounting for estimating reclamation and abandonment costs. The Standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. SFAS No. 143 requires us to record a liability for the present value of our estimated environmental remediation costs and the related asset created with it when a recoverable asset (long-lived asset) can be realized.



## Share Based Compensation

The Company accounts for share based compensation in accordance with SFAS 123R, "Share Based Payments." Accordingly, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award and recognizes cost over the requisite service period.

## 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 six months ended June 30, 2009 and 2008, we had net losses for which the affect of common stock equivalents would be anti-dilutive. Accordingly only basic and dilutive loss per share is presented.

## Use of Estimates

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

## Risks and Uncertainties

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

## Income Taxes

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

## Recent Authoritative Pronouncements

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

## Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

In June 2009, the Financial Accounting Standards Board issued Statement "FASB" issued Statement No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 168"). SFAS No. 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"), superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), Emerging Issues Task Force ("EITF"), and related accounting literature. SFAS No. 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS No. 168 will be effective for financial statements issued for reporting periods

that end after September 15, 2009. This statement will have an impact on the Company's financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS No. 168.

### Subsequent Events

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events". ("SFAS No. 165") This Statement establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date and is effective for interim and annual periods ending after June 15, 2009. The adoption of SFAS No. 165 is not expected to have a material impact on the Company's financial statements.

### Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued FSP FAS No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The implementation of FSP FAS No. 157-4 did not have a material on the Company's financial position and results of operations.

### Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments ". The objective of an other-than-temporary impairment analysis under existing U.S. generally accepted accounting principles (GAAP) is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings (such as securities classified as held-to-maturity or available-for-sale) should recognize a loss in earnings when the investment is impaired. An investment is impaired if the fair value of the investment is less than its amortized cost basis. FSP FAS No. 115-2 and FAS No. 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Earlier adoption for periods ending before March 15, 2009, is not permitted. The implementation of FSP FAS No. 115-2 and FAS No. 124-2 did not have a material impact on the Company's financial position and results of operations.

### Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued FSP FAS No. 107-1 and APB No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS No. 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The implementation of FSP FAS No. 107-1 did not have a material impact on the Company's financial position and results of operations

### Interim Disclosure about Fair Value of Financial Instruments

In April 2009, the FASB issued FASB Staff Position "FSP" No. SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments". This FSP amends SFAS No. 107 to require disclosures about fair values of

financial instruments for interim reporting periods as well as in annual financial statements. The FSP also amends Accounting Principles Board Opinions “APB Opinion” No. 28 to require those disclosures in summarized financial information at interim reporting periods. This FSP becomes effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material impact on our consolidated financial statements.

#### Amendments to the Impairment Guidance of EITF Issue No. 99-20

In January 2009, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20". This FSP amends the impairment guidance in EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. This Issue is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20-1 did not have a material effect on the Company's consolidated financial statements

#### Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing

In June 2009, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 09-1, "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing". This Issue is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. Share lending arrangements that have been terminated as a result of counterparty default prior to the effective date of this Issue but for which the entity has not reached a final settlement as of the effective date are within the scope of this Issue. This Issue requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. This Issue is effective for arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact of FSP EITF 09-1 on its financial position and results of operations.

#### Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." This FSP clarifies the application of SFAS No. 157, "Fair Value Measurements," in a market that is not active. The FSP also provides examples for determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS No. 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The impact of adoption was not material to the Company's consolidated financial condition or results of operations.

#### The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

#### Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS No. 142-3, “Determination of the Useful Life of Intangible Assets”, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142 “Goodwill and Other Intangible Assets”. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007) “Business Combinations” and other U.S. generally accepted accounting principles. The implementation of FSP FAS No. 142-3 is not expected to have a material impact on its consolidated financial statements.

#### Disclosure about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133.” This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The Company was required to adopt SFAS No. 161 on January 1, 2009. The adoption of SFAS No.161 on January 1, 2009 did not have a material effect on the Company’s consolidated financial statements

#### Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115,” which becomes effective on February 1, 2008, permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The election of this fair-value option did not have a material effect on its consolidated financial condition, results of operations, cash flows or disclosures.

#### Fair Value Measurements

In September 2006, the FASB No. 157, “Fair Value Measurements” (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value investments. SFAS No. 157 was effective for financial assets and liabilities on January 1, 2008. The statement deferred the implementation of the provisions of SFAS No. 157 relating to certain non-financial assets and liabilities until January 1, 2009. The adoption of SFAS No.157 on January 1, 2009 for financial assets and liabilities did not have a material effect on the Company’s consolidated financial statements.

#### Note 5 — Mineral Rights

Mineral rights at June 30, 2009 and 2008 consisted of the following:

|                        | 2009         | 2008         |
|------------------------|--------------|--------------|
| Comstock Placer Claims | \$ 100,000   | \$ 100,000   |
| Big Mike Copper Claims | 69,138       | 69,138       |
| Comstock Lode Claims   | 1,271,409    | 1,102,409    |
| Water rights           | 90,000       | 90,000       |
|                        | \$ 1,530,547 | \$ 1,361,547 |



## Note 6 — Property and Equipment, net

Plant and equipment at June 30, 2009 and 2008, consisted of the following:

|                               | 2009        | 2008        |
|-------------------------------|-------------|-------------|
| Land and Building             | \$ 677,443  | \$ 542,167  |
| Vehicle and Equipment         | 302,094     | 430,969     |
| Processing and Lab            | 704,527     | 452,017     |
| Furniture and Fixtures        | 49,391      | 66,228      |
|                               | 1,733,455   | 1,491,381   |
| Less accumulated depreciation | (1,037,791) | (1,182,300) |
|                               | \$ 695,664  | \$ 309,081  |

Depreciation expense for the six months ended June 30, 2009 and 2008 was \$42,454 and \$120,000, respectively. We use the straight-line method of depreciation for financial reporting purposes, depreciating buildings over 15 years and other assets over useful lives ranging from 3 to 10 years.

## Note 7 – Reclamation Bond Deposit

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 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 Plans we secured a \$1,106,882 mine reclamation financial assurance instrument through the Nevada Division of Minerals' Bond Pool Program. As required by the bond pool program, a cash deposit of \$766,768 was made.

## Note 8 — Long-term Reclamation Liability

We have an accrued a long-term liability of \$1,146,154 and \$553,190 as of June 30, 2009 and 2008 respectively, with regard to our obligations to reclaim our Comstock Mine facility based on our reclamation plan submitted and approved by the Nevada State Environmental Commission and Division of Environmental Protection in 2008. Costs of future expenditures for environmental remediation are discounted to their present value. 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. The reclamation liability accretion expense for the six month period ended June 30, 2009 was \$40,812 and the amortization of Long-lived assets was \$34,016 for the same period.

Following is a reconciliation of the aggregate retirement liability associated with on our reclamation plan for our Comstock Project

2009

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|   |    |           |
|---|----|-----------|
| Long-term asset retirement obligation 1/1/2009                              | \$ | 1,105,342 |
| Additional obligations incurred   |    |           |
| Increase in present value of the reclamation obligation (accretion expense) |    | 40,812    |
| Long-term asset retirement obligation 06/30/2009                            | \$ | 1,146,154 |

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## Note 9 - Notes Payable Stockholders

Mr. Winfield and his affiliates (“Winfield Group”) held various notes and debentures issued by the Company that are reported in several different liabilities accounts that are in default as of June, 2009. The notes are as follows:

|   | Principal     | Interest     |
|---|---------------|--------------|
| Convertible Debentures Payable – Investors (Note 10)                    | \$ 687,928    | \$ 6,391     |
| Convertible Debentures Payable - Mandatory Redemption payment (Note 10) | 4,412,058     | 515,925      |
| Convertible Notes Payable - 2006 & 2007 (Note 10)                       | 1,620,000     | 1,008,887    |
| Promissory Notes – July 2005 Financing (Note 11)                        | 1,200,000     | 1,139,815    |
| Promissory Notes – Plum Mine (Note 11)                                  | 250,000       | 50,000       |
| Promissory Notes Payable – December 2007 (Note 11)                      | 600,000       | 91,009       |
| Promissory Notes Payable – February 2008 (Note 11)                      | 600,000       | 78,764       |
| Convertible Notes Payable – 2008 (Note 10)                              | 2,500,000     | 236,877      |
|   | \$ 11,869,986 | \$ 3,127,663 |

The Winfield Group consists of Mr. Winfield and Santa Fe Financial Corporation, Portsmouth Square and InterGroup Corporation, and combined, represent the Company’s largest creditor and a significant stockholder. Mr. Winfield is affiliated with these Companies through a direct controlling interest and/or as their Chairman of the Board. As of June 30, 2009, the Company is in default of the terms on several outstanding notes payable and accordingly the entire note balances of the defaulted notes have been recorded as current liabilities.

## Note 10 - Convertible Debentures

Convertible debentures at June 30, 2009 and 2008 were as follows:

|  | 2009          | 2008         |
|--|---------------|--------------|
| Convertible Debentures Payable-Investors                     | \$ 1,105,908  | \$ 1,105,908 |
| Convertible Debentures Payable- Mandatory Redemption payment | 4,412,058     | 5,322,058    |
| Convertible Notes Payable – 2006 & 2007                      | 2,170,000     | 2,170,000    |
| Convertible Notes Payable – 2008                             | 2,500,000     |              |
| Total  | \$ 10,187,966 | \$ 8,597,966 |

## Convertible Debentures Payable - Investors

During March 2004, we completed a private placement of securities transaction (the “March Offering”), which generated \$10 million in gross proceeds from a group of accredited institutional and individual investors.

On November 30, 2004, we restructured the March Offering and entered into a new subscription agreement. We exchanged 21,739,129 shares of common stock and 21,739,129 warrants issued in the March Offering for:

- 8% convertible notes in the aggregate principal amount of approximately \$11.1 million. 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 registration of the common stock held by the investors, and
- 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, which expire in 4 years.



The 8% convertible notes mature in November 2006 and call for monthly payments of 102% of 1/20th of the initial principal amount, together with accrued interest. We have the option to repay the notes with our common stock at a conversion rate of 85% of the average of the five lowest closing bid prices during the preceding 20 trading days. Further, the notes may be prepaid at 115% of their outstanding principal. Each note may be converted by the holder into 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 70% of the average of the five lowest closing prices during the 20 trading days preceding the closing date.

On April 1, 2005, we defaulted on our first monthly payment. 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 accordingly we were obligated to issue 33,817,594 shares of common stock. Under the terms of the subscription agreement, we had three business days following receipt of the conversion notice (the "Delivery Date") to deliver free-trading common stock certificates. The shares were due to be delivered in December 2004, however, they were not delivered until 2005. Our failure to deliver shares, subjected us to liquidated damages of 1% of the note principal amount being converted for each late business day.

#### Convertible Debentures Payable - Mandatory Redemption

In March 2005, because we did not deliver the share certificates within the period required in the subscription agreement, 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 consequently forfeited his right to receive shares in lieu of 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 nine Convertible Debentures ("the Debentures"). Accordingly, we accrued a liability for approximately \$6.9 million and reduced our paid-in-capital account for approximately \$3.5 million. The Debentures are subject to various covenants and conditions, including, but not limited to anti-dilution rights and protective rights. The Debentures accrue interest at 12% per annum and are payable in monthly installments of principal and interest over a 24 month period with the remaining entire balance of unpaid principal and interest due on March 31, 2007. We are currently in default on this note. The default interest rate is 18% per annum.

The debentures are subject to the following terms:

#### Conversion Rights

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

#### Security Agreement

Pursuant to the terms of the Settlement Agreement, the Debentures are granted a priority collateralized position, second only to our note payable to the Brockbank Trust (See Note 7) in substantially all of our assets.



## Convertible Debentures Payable - Mandatory Redemption

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%. In February 2008, we satisfied all obligations of these notes.

## Convertible Notes Payable – 2006 &amp; 2007

The convertible notes payable as of June 30, 2009 are as follows:

|                                  | Issued date | Face amount  |
|----------------------------------|-------------|--------------|
| Winfield Group Debenture Payable | 5/15/2006   | \$ 300,000   |
| Winfield Group Debenture Payable | 6/21/2006   | 300,000      |
| Winfield Group Debenture Payable | 8/23/2006   | 300,000      |
| Longview Debenture Payable       | 8/24/2006   | 300,000      |
| Winfield Group Debenture Payable | 12/12/2006  | 100,000      |
| Winfield Group Debenture Payable | Q1 2007     | 331,120      |
| Winfield Group Debenture Payable | Q2 2007     | 288,880      |
| Longview Debenture Payable       | 3/27/2007   | 250,000      |
|                                  |             | \$ 2,170,000 |

On August 23 and 24, 2006, the Company formally entered into an agreement with several investors to loan the Company \$1,900,000, which was amended in March 2007, increasing the loan amount to \$2,200,000. The notes bear interest at 12% per annum, payable on the first of each month commencing October 1, 2006, along with 1/24 of the face amount of such notes. The notes are also convertible into Common Stock at a 50% discount to market until the underlying shares are registered and at a 15% discount to market thereafter. As additional consideration, the investors were issued a total of 20,000,000 warrants to purchase common stock at exercise prices based upon the same formulas for conversion of the amounts due under the notes. The notes are secured by a lien on the assets of Goldspring, Inc. and a pledge of all of the interests in Plum Mine Special Purpose, LLC, which owns the Plum Mine operation. In connection with this loan, the lender has agreed to acquire the existing mortgage on the Plum Mine property from the Brockbank Trust. To date, \$2,170,000 of the \$2,200,000 has been funded by the investors. As of December 31, 2008, we had failed to make any monthly payments on the notes and they are in default. The default interest rate is 18% per annum.

The “favored nations” rights in several existing notes were triggered by the issuance of new notes. Since new warrants were not issued, no “favored nations” rights were triggered in the existing warrants and therefore the accounting for warrants will be unaffected. The warrants conversion feature will be evaluated and adjusted to fair value annually.

## Convertible Notes Payable –2008

In June 2008, the Company entered into a Loan Agreement with John Winfield and affiliates (“Winfield”) pursuant to which Winfield has agreed to loan the Company \$2,500,000 no later than December 31, 2008 through issuance of a series of secured notes (“Notes”). The Notes bear interest at the rate of 11% per annum, and interest is payable quarterly in either cash or Company common stock, at 85% of market price, at the Company’s option. The term of the Notes is two years from the date of issuance, and the Notes are convertible into Company common stock, at a conversion price of \$.015 per share. The Notes are secured by a lien on all of the Company’s assets. In each month, during the five months ended December 2008, Winfield lent the Company \$500,000 pursuant to the Loan Agreement.



The Convertible Notes Payable -2008 contain a non-detachable convertible option that was “in the money” at the commitment dates. Accordingly, we applied the accounting guidance of EITF 98-5, EITF 00-27 and EITF 08-4 to determine the methodology for calculating the value of this embedded conversion option. Pursuant to EITF 98-5 and EITF 00-27, we used the intrinsic value calculation (the difference between the conversion price and the quoted market price of our shares at the commitment date multiplied by the number of shares into which the security is convertible) to determine the value of the convertible feature. The Convertible Notes provide the following Conversion Right: “Each Lender shall have the right at any time, and from time to time, on or prior to the Maturity Date to convert all or any part of the outstanding unpaid amount of the Note into fully paid and non-assessable shares of Common Stock.” In general, the value of the conversion option is recorded as a debt discount and amortized over the term of the note, but since the Lender has the right to convert into common shares at the issuance date, the entire amount was recorded to interest expense in this reporting period.

| Note | Principal | Debt Discount | Conversion Price per Share | Number of Shares Underlying Convertible Note |
|------|-----------|---------------|----------------------------|--|
| \$   | 2,500,000 | -             | \$ 0.015                   | 166,666,667                                  |

Note 11 —Other Debt

Other Debt at June 30, 2009 and 2008 are as follows:

|  | 2009         | 2008         |
|--|--------------|--------------|
| Promissory Notes Payable - 2005 through 2008 | \$ 2,400,000 | \$ 4,775,000 |
| Debt – Plum Mine                             | 250,000      | 250,000      |
| Equipment Financing - current portion        | 4,540        | 10,292       |
|  | \$ 2,654,540 | \$ 5,035,292 |

Promissory Notes Payable –2005 through 2008

Promissory Notes Payable at June 30, 2009 and 2008 are as follows:

|   | 2009         | 2008         |
|---|--------------|--------------|
| Promissory Notes Payable-July 2005 Financing      | \$ 1,200,000 | \$ 1,200,000 |
| Promissory Notes Payable-September 2005 Financing |              | 300,000      |
| Promissory Notes Payable-December 2005 Financing  |              | 575,000      |
| Promissory Notes Payable-February 2006 Financing  |              | 250,000      |
| Promissory Notes Payable-March 2006 Financing     |              | 150,000      |
| Promissory Notes Payable-July 2007 Financing      |              | 300,000      |
| Promissory Notes Payable-October 2007 Financing   |              | 200,000      |
| Promissory Notes Payable-March 2008               |              | 600,000      |
| Promissory Notes Payable-December 2007 Financing  | 600,000      | 600,000      |
| Promissory Notes Payable-January 2008 Financing   | 600,000      | 600,000      |
|   | \$ 2,400,000 | \$ 4,775,000 |

Promissory Notes Payable - July 2005 Financing

In July of 2005, we borrowed \$1.2 million from companies controlled by John V. Winfield, a major investor. Proceeds from the notes were reduced by a 33.3% original issue discount and other origination fees. Net proceeds received by the Company from the borrowing were \$740,000. The notes accrue interest at 15% per annum and are payable in monthly installments of principal and interest over a 24 month period with the remaining entire balance of unpaid principal and interest due on July 15, 2007. The notes are collateralized by substantially all of the Company's assets subject to the security interest of the Brockbank Trust (See Note 8). As of December 31, 2006 we had failed to make any monthly payments on the notes and they are in default. The default interest rate is 17% per annum.

Promissory Notes Payable – September 2005 through October 2007 Financing

In July 2008, the Company amended \$2,175,000 principal amount of unsecured promissory notes issued to Longview Fund, L.P. through the issuance of an Amended and Restated Promissory Note issued by the Company in favor of Longview Fund, L.P. These amended notes have been reported as long-term debt (See Note 9).

Promissory Notes Payable – December 2007 Financing

In December 2007, we completed a financing transaction with Mr. Winfield and his affiliates which provided us with \$500,000 in funding. In consideration for the financing, we issued promissory notes with a face value of \$600,000, reflecting an original discount of sixteen and seventeen hundredths (16.17%) percent. The notes evidencing the loan bear interest at the rate of 4.9% per annum, payable on or prior to the one year anniversary of the respective loan date. As of December 31, 2008 we had failed to make any monthly payments on the notes and they are in default. The default interest rate is 18% per annum.

Promissory Notes Payable – January 2008 Financing

On January 31, 2008, we completed a financing transaction with Mr. Winfield and his affiliates which provided us with \$500,000 in funding. In consideration for the financing, we issued promissory notes with a face value of \$600,000, reflecting an original discount of sixteen and seventeen hundredths (16.17%) percent. The notes evidencing the loan bear interest at the rate of 4.9% per annum, payable on or prior to the one year anniversary of the respective loan date. .. As of January 31, 2009 we had failed to make any monthly payments on the notes and they are in default. The default interest rate is 18% per annum.

Debt - Plum Mine

We have a non-interest bearing note payable note related to our purchase of the Plum Mining property. The note does include, however, a clause for 5% annual interest on all past due balances. The note was payable in ten quarterly payments through June 2006. As of June 30, 2009 we still had a \$250,000 note balance due.

Note 12 — Long-term Convertible Debt Obligation

Convertible debentures at June 30, 2009 and 2008 were as follows:

|  | 2009          | 2008 |
|--|---------------|------|
| Long-term Convertible Notes Payable – July 2008 (Longview Amended and Restated Note) | \$ 2,782,563  | \$   |
| Long-term Convertible Notes Payable – May 2009                                       | 1,500,000     |      |
| Long-term Convertible Notes Payable, net of current portion                          | \$ 4,,282,563 | \$ - |

Long-Term Convertible Notes – July 2008 (Longview Amended and Restated Note)

On July 10, 2008, the Company amended \$2,175,000 principal amount of unsecured promissory notes issued to Longview Fund, L.P. through the issuance of an Amended and Restated Promissory Note issued by the Company in favor of Longview Fund, L.P. The amended terms are as follows:

Expiration Date: July 10, 2011  
 Accrued Interest: Accrued interest at July 10, 2008 capitalized into the amended and revised note.  
 Interest Rate:

11%, payable in arrears in cash or stock (at a 15% discount to market price, calculated as a 5 day trailing VWAP)

Conversion: The principal amount of the Note and interest thereon is convertible into Goldspring Common Stock at a price of \$.0175 per share.  
 Term: Three Years  
 Anti Dilution: Full ratchet

Longview Amended and Restated Notes at July 10, 2008 were as follows:

|   | Principal    | Interest   |
|---|--------------|------------|
| Promissory Notes Payable-September 2005 Financing | \$ 300,000   | \$ 172,870 |
| Promissory Notes Payable-December 2005 Financing  | 375,000      | 211,966    |
| Promissory Notes Payable-February 2006 Financing  | 250,000      | 98,164     |
| Promissory Notes Payable-March 2006 Financing     | 150,000      | 56,237     |
| Promissory Notes Payable-July 2007 Financing      | 300,000      | 58,526     |
| Promissory Notes Payable-October 2007 Financing   | 200,000      | -          |
| Promissory Notes Payable-March 2008 Financing     | 600,000      | 9,800      |
|   | \$ 2,175,000 | \$ 607,563 |

On March 10, 2008, we received the \$500,000 balance of the financing from the December 11, 2007 financing agreement. In consideration for the financing, we issued promissory notes with a face value of \$600,000, reflecting an original discount of sixteen and seventeen hundredths (16.17%) percent. The notes evidencing the loan bear interest at the rate of 4.9% per annum, payable on or prior to the one year anniversary of the respective loan date. On July 10, 2008, the Company amended its promissory note with Longview Fund, L.P., which had outstanding principal of \$2,175,000 and related outstanding interest of \$607,563 through the issuance of an Amended and Restated Promissory Note in the aggregate amount of \$2,782,563 as summarized above.

#### Convertible Loan Agreement – May 1, 2009

On May 1, 2009, the Company secured \$2,000,000 commitment for additional convertible debt financing. The agreement gives the Company the right, upon 30 days prior written notice to the Lenders, to request financing of not less than \$250,000 and or more than \$500,000 per loan request. The Company may request loans at any time between May 1, 2009 and August 28, 2009. As of the date of the filing the Company has received \$1,500,000 of financing.

The terms of the agreement are as follows:

Convertible Loan Amount: Up to \$2,000,000  
 Interest Rate: 9%, payable in arrears in cash or stock at the lender's option  
 Conversion: The principal amount of the Note and interest is convertible into Goldspring Common Stock at the lesser of (A) \$.0125 per share, or (B) .85 multiplied by the "Volume Weighted Average Price" for the Borrower's Common Stock for the five trading days immediately prior to the Conversion Date.  
 Term: Three Years  
 Warrants: 50% Stock warrant coverage (Maximum warrants: 80,000,000) with an exercise price of \$0.02 and a term of four (4) years  
 Security: Security interest in all of the Company's assets, pari passu with the existing security interests



## Note 13 — Long-term Debt Obligation

Long-term debt at June 30, 2009 and 2008 was as follows:

|  | 2009       | 2008       |
|--|------------|------------|
| Long-term Debt - Winfield Debenture          | 500,000    |            |
| Long-term Debt – Seller’s Note Land Purchase | 120,000    | 320,000    |
| Long-term Debt - Equipment Financing         | 4,540      | 16,796     |
| Less current portion                         | (4,540)    | (10,826)   |
| Long-term debt, net of current portion       | \$ 620,000 | \$ 325,970 |

## Long-Term Debt – Winfield Debenture

On December 8, 2008, we completed a financing transaction with Mr. Winfield and his affiliates which provided us with \$500,000 in funding. In consideration for the financing, we issued promissory notes with a face value of \$500,000 bearing loan interest of 11% per annum. The term of loan is for two years commencing from the date of the loan agreement.

## Long-term Debt - Seller’s Note Land Purchase

On February 17, 2009 we purchased 4.79 acres in the Comstock District for \$130,000. We partially financed this transaction through a first deed of trust that is interest only for two years and bears interest at 16% per annum.

## Long-Term Debt - 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 average interest rate of 7.2%. The equipment purchased is pledged as collateral for the debt.

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

|                     |          |
|---------------------|----------|
| 2009                | \$ 4,540 |
| 2010                | \$       |
| 2011                | \$       |
| 2012 and thereafter | \$       |
| Total               | \$ 4,540 |

## Note 14 — Stockholders’ Equity

Common stock was issued during the six month period ended June 30, 2009 and June 30, 2008 for the following purposes:

|                     | 2009 Share  |             | 2008 Share  |             |
|---------------------|-------------|-------------|-------------|-------------|
|                     | Issuances   | Share Value | Issuances   | Share Value |
| Debenture principal |             | \$          | 99,847,173  | \$ 970,273  |
| Debenture Interest  | 125,202,687 | 1,266,041   | 77,145,795  | 700,066     |
| Liquidated damages  |             |             | 108,189,261 | 1,009,845   |
| Private placements  | 98,600,000  | 986,000     | 90,000,000  | 1,000,000   |
| Mineral claims      |             |             | 2,200,000   | 32,490      |

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|                         |             |              |             |              |
|-------------------------|-------------|--------------|-------------|--------------|
| Mining software         |             |              | 2,434,892   | 9,740        |
| Consulting              |             |              | 7,530,000   | 114,240      |
| Employees and directors | 4,500,000   | 58,500       | 20,000,000  | 234,400      |
| Total                   | 228,302,687 | \$ 2,310,541 | 407,347,121 | \$ 4,071,054 |

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### Debenture Principal, Debenture Interest and Liquidated Damages

The following represents principal and interest payments on debt, made during the three months ended June 30, 2009 with the issuance of our common stock.

| Note Description   | Interest Payment<br>Number of<br>shares | Value of<br>Shares | See Note |
|--|---|--------------------|----------|
| Convertible<br>Debentures<br>Payable-Investors   | 12,300,000                              | \$ 123,000         | Note 10  |
| Convertible<br>Debentures Payable -<br>Mandatory<br>Redemption payment                   | 99,000,000                              | \$ 990,000         | Note 10  |
| Long-Term<br>Convertible Notes –<br>July 2008 (Longview<br>Amended and<br>Restated Note) | 13,902,687                              | \$ 153,041         | Note 12  |

### Private Placements

The following private placement transactions raised a total of \$950,000 in exchange for 95,000,000 shares of our unregistered Common stock, were placed with accredited investors. In general, the proceeds were used to fund exploratory drilling and for general working capital.

- In the first quarter 2009, \$950,000 for 95,000,000 shares at \$0.01 per share and 95,000,000 warrants. The warrants have an exercise price of \$0.015 and a term of six years. We also issued 3.6 million shares as a placement fee.

### Employees and directors

During the six month period ended June 30, 2009, the following shares were issued to employees and Company directors:

- Pursuant to his employment agreement, Larry Martin, the Company's Chief Geologist, was issued a total of 2,000,000 of our unregistered common shares, valued at \$28,500 or \$0.0145 per share during 2009.
- Pursuant to his agreement with the Company, Dennis Anderson, the Company's Senior Engineer, was issued a total of 2,500,000 of our unregistered common shares, valued at \$30,000 or \$0.012 per share during 2009.

### Note 15- Earnings Per Share

Basic earnings per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income, after deducting preferred stock dividends accumulated during the period, by the weighted average number of shares of common stock and dilutive common stock equivalent shares outstanding. The amount of preferred stock dividends is zero in all periods presented. For the quarters ended June 30, 2009 and June 30,

2008, there were approximately 1,885 million and 1,260 million, respectively, of common stock equivalent shares excluded from the dilutive earnings per share calculation because they were anti-dilutive. The following is a reconciliation of the number of shares used in the basic and diluted computation of net income per share (in millions):

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|  | For the three month period ended<br>June 30, |       |
|--|--|-------|
|  | 2009   | 2008  |
| Weighted average number of common shares outstanding – basic   | 3,477  | 3,079 |
| Dilution from convertible debt, stock options and warrants     | 1,794  | 1,024 |
| Weighted average number of common shares outstanding – diluted | 5,271  | 4,103 |

  

|  | For the six month period ended<br>June 30, |       |
|--|--|-------|
|  | 2009                                       | 2008  |
| Weighted average number of common shares outstanding – basic   | 3,523                                      | 2,988 |
| Dilution from convertible debt, stock options and warrants     | 1,794                                      | 1,024 |
| Weighted average number of common shares outstanding – diluted | 5,317                                      | 4,012 |

#### Note 16- Embedded Derivatives

“Derivative liability” totaling \$6,931,000 at June 30, 2009 represents the fair value of the conversion feature (embedded derivatives) included in debt. See Note 10 - Convertible Debentures: Embedded Derivatives and Note 12 — Long-term Convertible Debt Obligation: Embedded Derivatives for additional information.

#### Note 17 - Unregistered Sales of Securities

During the first quarter 2009, Goldspring raised \$950,000 through a private placement to six (6) accredited investors. In consideration we issued 95,000,000 shares of our unregistered Common Stock at \$0.01 per share purchase price plus 95,000,000 warrants to purchase Common Stock at \$0.015. The term of the warrants is six (6) years. The proceeds from this private placement were used to fund exploratory drilling and for general working capital. In addition, 3.6 million shares were issued as part of a placement fee.

- Pursuant to his employment agreement, Larry Martin, the Company’s Chief Geologist, was issued a total of 2,000,000 of our unregistered common shares, valued at \$28,500 or \$0.0145 per share during 2009.
- Pursuant to his agreement with the Company, Dennis Anderson, the Company’s Senior Engineer, was issued a total of 2,500,000 of our unregistered common shares, valued at \$30,000 or \$0.012 per share during 2009.

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

The following discussion provides information that we believe is relevant to an assessment and understanding of the consolidated results of operations and financial condition of our company. It should be read in conjunction with the Consolidated Financial Statements and accompanying Notes also included in this 10-Q.

The following discussion addresses matters we consider important for an understanding of our financial condition and results of operations for the three months ended June 30, 2009, as well as our future results.

### Overview

GoldSpring, Inc. (Company) is a North American precious metals mining company, focused in Nevada, with an extensive land position of 334 claims that controls 4,300 acres comprised of 590 acres of patented claims (private lands) and 3,710 acres unpatented claims subject to various underlying royalties, in the historic Silver City and Comstock mining districts, Storey County and Lyon County, Nevada, USA. The Company was formed in mid-2003, and during that year acquired two properties in the Comstock Lode District. The Company deployed several million dollars securing permits, building an infrastructure and bringing the exploration project into test mining production within a year of its acquisition.

The Company, in 2005, began consolidating the Comstock Lode District by acquiring additional properties. The Company successfully expanded our footprint and creating additional opportunities for exploration and mining. The Company's objectives are to create reserves through exploration, resume mining, optimize its production, and maximize shareholder value.

From September 2004 through 2006 the Company operated its Plum Mine open pit gold and silver operation located on the patented Billie the Kid claims in the Comstock District. During this period, the Plum Mine operation produced and sold 11,550 ounces of gold and 45,376 ounces of silver. The average recoverable grade for gold was 0.034 ounces per ton and for silver was 0.13 ounces per ton. In early 2007 the Company decided to suspend mining operations and to go into voluntary temporary closure in order to focus on our footprint in the Comstock,, study the geology of the District, delineate mineralization and create a drilling strategy and plan. The focus shifted from mine operations to exploration and developmental drilling in order to define mineralization. In addition, a comprehensive metallurgical testing program was initiated to ensure optimum precious metal recovery from future production.

The majority of 2007 was focused on collecting and analyzing geological information from our Comstock project in Nevada, the Hartford / Lucerne Complex provided a unique opportunity to identify significant precious metals mineralization that would lead us to open pit mine production in a short period of time.

The Company's goal is to reopen The Plum Mine during 2010 by commencing open pit mining at the Hartford / Lucerne Complex. To achieve this goal, the Company contracted Techbase to create a computerized mine modeling and mineralization estimate and commissioned an in house scoping study. The scoping study includes a complete comprehensive mine plan and mining schedule. Construction of the new milling facility and new process ponds as well as the expansion of the processing facilities will require a diligent, efficient and fully funded effort to achieve production by early 2010. A mine truck and shovel fleet, and ancillary mine production equipment will need to be acquired and placed in service by the mine production team. The mine production team will supply the ore to the mill and heap leach pad for processing. Our ability to resume mining is dependent upon securing sufficient funds to procure the mining fleet and related assets.

### Results of Operations and Operational Plan

The Hartford / Lucerne complex area was the focus of the 2008 - January 2009 development drilling program. The existing production facility and planned starter pit are located on patented-private land. The Nevada Division of Environmental Protection -Bureau of Mine Regulation and Reclamation (BMRR) is the lead agency in the regulation of the operation of the Plum Mine. The ultimate economic pit currently being planned trends onto public lands administered by the Bureau of Land Management (BLM), US Dept of the Interior.

Exploration, developmental and in-fill drilling since our decision to suspend mining operation has resulted in definition of new mineable precious metal mineralized material. An internal scoping report quantified the mineralized material and estimated precious metal recovery rates as follows:

| Category   | Tons       | Inventory of Mineralized Material |                    | Estimated Recovery % |        |
|------------|------------|-----------------------------------|--------------------|----------------------|--------|
|            |            | Au(ounces per ton)                | Ag(ounces per ton) | Au (%)               | Ag (%) |
| Mill-grade | 7,753,000  | 0.053                             | 0.597              | 95%                  | 80%    |
| Heap-grade | 15,161,000 | 0.015                             | 0.015              | 65%                  | 30%    |
| Total      | 22,914,000 | 0.028                             | 0.371              |                      |        |

The Plum Mine, our project in the Comstock Lode District, has a State issued Mine Reclamation Permit (Permit No. NEV 0196) and an Operating Permit (NEV 2000109). The Mine Reclamation Permit was updated in 2008 pursuant to a required three year review and modification program. Pursuant to the 2008 approved Reclamation Plans, we secured a \$1,106,882 mine reclamation financial assurance instrument through the Nevada Division of Minerals' Bond Pool Program. As required by the bond pool program, a cash deposit of \$766,768 was made. This reclamation bond allows mining and processing at the currently permitted heap leach facility in the Comstock District of Storey County.

Modification to the State permits is underway to add changes to the processing system that will optimize precious metals recovery. In the first calendar quarter 2009, we submitted a major modification to our water pollution control permit to the Nevada Department of Environmental Protection. We expect to have this amended permit during the last calendar quarter of 2009. In addition, we intend to submit a major modification to our Air Quality permit during the third quarter 2009. The permit modification is required for planned equipment changes and additions to the processing circuit. The Storey County Special Use Permit must be amended before the commencement of mining. The completion of permitting should allow us to commence mine production again in 2010.

A significant part of our success can be attributed to the tier-one team of experienced mining professionals that has been assembled since late 2007. This team created a drill campaign based on the results of the geological model they created from analyzing data for mineralization in the Comstock Mining District. We launched this developmental surface drill program at the Hartford / Lucerne Complex in December 2007 to delineate the zones of mineralization. The drill hole depth of this reverse circulation drill program typically ranged from 600 to 1000 feet.

Our fifteen-month drill program, which ended in February 2009, consisted of 182 Reverse Circulation (RC) drill holes. The majority of the 182 drill holes were planned and methodically located to drill Hartford / Lucerne Complex on adequate spacing to define continuity and grade .. A small fraction of the allocated budget was used to drill holes on lease properties that required annual work commitments. Several of these exploration drill holes intersected favorable mineralized zones and will be followed by additional offset drilling.

During this program the Company contracted two drilling companies: Orbit Garant Drilling and George Delong Construction and Drilling. The drill rigs were reverse circulation track rigs and one truck mounted drill rig that performed the exploration and developmental drilling at the Comstock project. Several experienced mining professionals and consultants with proven success were added in 2008 to further strengthen and augment all facets of mining, including metallurgy. In order to fund these exploration efforts, the Company raised \$5,120,000 in 2008 and \$950,000 in the first fiscal quarter 2009 to finance this developmental and exploratory drill campaign.

Third-party consultant Mike Norred, President of Techbase International, modeled the results of this Hartford / Lucerne Complex drill program combined with the historic drill results to estimate gold and silver mineralization. This statistical model confirmed that the drill hole spacing selection was correct. The model independently confirmed many geologic attributes which control this mineralized material deposit.

Our procedures to ensure accurate reporting include: 1.) Surface collars of the individual drill holes were surveyed and drill holes completed after October 7, 2008 were surveyed down the hole. 2.) Samples of drilling were collected every five feet and duplicate samples every 100 feet. 3.) Drill samples were kept in secured containers until pickup by American Assay Labs in Sparks, Nevada. 4.) American Assay Labs was the principle certified commercial laboratory used by the Company for assay analysis. 5. Check assay analysis was conducted by ALS-Chemex Laboratories in Reno, Nevada 6.) Specific selected samples were assayed by the Company's in-house analytical lab.

In mid December 2007, the Company commenced development of a mineral exploration and mine development business model with the objective of resumption of mine production in 2010. The most relevant steps taken are as follows:

- Expanding our land holding and mineral rights in the Comstock Region and other acquisition opportunities through the entry into of two letters of intent to purchase rights, which upon consummation, may allow the Company to amass one of the largest land positions in the Comstock District.
- Further exploration in the Comstock Region to accomplish the above, including a decision to review the geology of the Hartford / Lucerne complex in a more detailed manner
- Completed an in-house reserve report for the Hartford / Lucerne complex through a focus on infill drilling
- Expanded the permitted drilling area
- Updated and expanded the mine reclamation permit and reclamation bond

In addition to our drilling activities, we expanded our mineral claim portfolio in the Comstock District through acquisition and the staking of mineral claims .. We now control over 4,300 acres of patented and unpatented mining claims in the Comstock District of Nevada. Approximately 2,000 acres of these holdings had been added through the staking new mineral claims. We remain focused on expanding our land portfolio and mineral holdings in the Comstock Lode District.

Our exploration staff is currently planning additional surface geochemical sampling, detailed geologic mapping and rock chip sampling on previously identified favorable targets and expanding onto additional target areas. We are consolidating historic exploration and production records using Techbase software. Our plans are to expand our computer model of the Hartford / Lucerne complex with the objective of delineating additional geologic targets in the Comstock Lode District.

#### 2009 Developments

In the first quarter of 2009, a modification application to the Water Pollution Control Permit was submitted to the Nevada Division of Environmental Protection. The permit modifications highlight the Company's newly designed processing facilities that will optimize recovery of the recently discovered mill-grade gold and silver ore at the Hartford Complex.

The major planned improvements to the processing facilities include the:

- Construction and operation of two new crushed ore storage areas;
- Implementation of a high-grade ore milling circuit in a contained area;
  - Expansion of the leach solution pumping systems;
  - Formation of a new pregnant solution pond; and
  - Expansion of the Merrill Crowe processing plant.

The Nevada Division of Environmental Protection, Bureau of Mining Regulations and Reclamation, has begun its review of the application. Major modification applications typically take nearly 180 days to complete. Under the modified permit, the Company initially plans to mine and process at a rate of 720,000 tons of gold and silver ore per year. The majority of the ore that will be processed in the milling circuit will have a high percentage of the contained precious metals recovered because of efficiencies afforded by the milling process.

Several other operating permits are also being updated to allow operations to begin in 2010. Dennis Anderson, Professional Mine Engineer, leads the mine permitting efforts and is supported by the engineering consultants at Telesto Nevada, LLC of Reno, Nevada.

In anticipation of mining resumption, the Company has procured a 300 ton per day ball mill and related equipment. The ball mill is being added to process the high grade gold and silver mineralization, optimizing gold and silver recovery. Precious metal recovery using the ball mill and grinding to 100 Mesh should be around 95% versus 75% for heap leaching.

Assuming sufficient funds are raised in a timely manner, the Company's goal would be to reopen the Mine during in 2010. In order to resume production, the Company must complete a comprehensive mine plan; and complete a mining schedule, all of which are dependent upon ability to secure sufficient funds to procure the mining fleet and related assets. In addition, we will need to construct the milling facility, process ponds and expand the existing processing facilities. A haul truck and shovel fleet, and ancillary mine production equipment will need to be acquired and placed in service by the mine production team.

There are also risks involved in the fact that one individual and his affiliates, as of June 30, 2009, beneficially own in excess of 24% of our voting stock. Pursuant to financing agreements, this convertible debt holder and his affiliates with a 61 day notice can waive the 4.9% ownership restriction, allowing him to convert 100% of his convertible debt and related interest, which totals \$11,493,205 at June 30, 2009, into our common shares. This group, if they waive the ownership restriction and convert all convertible debt and related interest into our voting common stock, may take actions that could conflict with your interests. This includes the election of Company directors, approval of actions generally requiring the approval of the holders of our voting stock, including adopting amendments to our articles of incorporation and bylaws and approving mergers, certain acquisitions or sales of all or substantially all of our assets, which could delay or prevent someone from acquiring or merging with us or limit the ability of our other stockholders to approve transactions that they may deem to be in their best interests.

#### DWC Resources Letter of Intent

On August 13, 2008, Goldspring, Inc. (the "Company") entered into a binding letter of intent to purchase certain property owned by DWC Resources, Inc. in Storey County, Nevada. The purchase price is \$7,500,000, but is subject to adjustment pursuant to the results of a fairness opinion and/or appraisal to be obtained by the Company. The purchase price will be paid through issuance of a \$7,500,000 promissory note which shall bear interest at the rate of 9% per year with quarterly interest payments due throughout the term of the note which is 5 years. The purchased assets include patented and unpatented lode mining claims owned by DWC Resources, Inc. in the Comstock Lode district. The letter of intent also provides for the payment of royalties ranging from 2% - 6% of "net smelter returns" based upon the price of gold per ounce and a 1% royalty to be paid to the party which sold the subject property to DWC Resources in 2007. There is also a commitment to expend a minimum of \$250,000 per year on exploration by the Company for five years. The definitive documentation has not yet been executed.

#### Sutro Tunnel Sublease

The Company simultaneously entered into a binding letter of intent to sublease the Sutro Tunnel Lease dated January 1, 2008 between Sutro Tunnel Co. and John Winfield or his nominee. The purchase price for the sublease is \$2,000,000 (which is subject to adjustment upon receipt of a third party fairness opinion/appraisal) payable pursuant to the issuance of a \$2,000,000 promissory note which shall bear interest at the rate of 9% per year with quarterly interest payments due throughout the term of the note which is 5 years. The letter of intent also provides for the payment of royalties ranging from 6% - 8% of "net smelter returns" based upon the price of gold per ounce and a 1%

royalty to be paid to Winfield if Winfield provides an acceptable buyout of the Sutro property. The Company is also required to fulfill lessee's obligations under the Sutro Tunnel Lease with regard to payment of royalties and exploration expenditures. The definitive documentation has not yet been executed.

## Comparative Financial Information

Below we set forth a summary of comparative financial information the three and six months ended June 30, 2009 and 2008.

## Comparative Financial Information

## Three Months Ended June 30, 2009

|  | Quarter<br>ended<br>June 30,<br>2009 | Quarter<br>ended<br>June 30,<br>2008 | Difference |
|--|--------------------------------------|--------------------------------------|------------|
| Revenue  | \$ —                                 | \$ —                                 | \$ —       |
| Depletion and amortization                       | 37,603                               | 60,000                               | (22,397)   |
| Reclamation, Exploration and Test Mining Expense | 642,077                              | 792,308                              | (150,231)  |
| General and Administration                       | 309,663                              | 802,805                              | (493,142)  |
| Consulting and Professional Service              | 75,000                               | 27,940                               | 47,060     |
| Financing cost – warrant issuances               | 418,173                              | —                                    | 418,173    |
| Other, net                                       | 58,500                               | 61,875                               | (3,375)    |
| Interest Expense                                 | 821,051                              | 588,119                              | 232,932    |
| Net Loss   | \$ (2,362,067)                       | (2,333,047)                          | \$ 29,020  |

We did not produce or sell any gold or silver at our Comstock project in Nevada during the three months ended June 30, 2009 and June 30, 2008. In February 2007, we shifted our focus to geology and developmental / in-fill drilling and suspended mining activities.

Reclamation, Exploration and Test Mining Expenses were \$ 150,231 less for the three month period ended June 30, 2009 compared to the three month period ended June 30, 2008. This variance reflects the suspension of developmental drilling during the quarter ended June 30, 2009 to focus on quantifying the drill assay information our December 2007 through January 2009.drill campaign.

The second calendar quarter 2009 General and Administrative expenses decreased by \$493,142 from the second calendar quarter 2008. Second calendar quarter 2008 General and Administrative expenses were higher because of employee stock option expense of \$429,000. This compares to \$0 for the second calendar quarter 2009.

Consulting and professional expenses for the three month period ended June 30, 2009 were \$75,000 compared to \$27,940 for the three month ended June 30, 2008, amounting to \$47,060 quarter over quarter increase. The increase in expenses reflects higher legal fees and the contracting of a consultant during the second calendar quarter 2009.

The second calendar quarter 2009 Financing cost – warrant issuance expense represents the fair value calculation for the 60 million warrants issued in conjunction with the May 2009 financing. The fair value of each warrant was estimated at the date of the grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid, nor anticipates paying any, cash dividends and employee exercise behavior. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company's stock price and other factors.

Interest expense for the three month period ended June 30, 2009 increased by \$232,932 from June 30, 2008. This variance reflects the issuance of additional interest bearing notes and debt discount of \$65,144 associated with fair value calculation for the May 2009 financing.

## Six Months Ended June 30, 2009

|  | Six months<br>ended<br>June 30,<br>2009 | Six months<br>ended<br>June 30,<br>2008 | Difference   |
|--|---|---|--------------|
| Revenue  | \$ —                                    | \$ —                                    | \$ —         |
| Depletion and amortization                       | 76,469                                  | 120,000                                 | (43,531)     |
| Reclamation, Exploration and Test Mining Expense | 2,092,393                               | 1,441,401                               | 650,992      |
| General and Administration                       | 692,217                                 | 1,103,007                               | (410,790)    |
| Consulting and Professional Service              | 145,406                                 | 58,959                                  | 86,447       |
| Financing cost – warrant issuances               | 1,745,035                               | —                                       | 1,745,035    |
| Other, net                                       | 58,500                                  | (551,907)                               | 610,407      |
| Interest Expense                                 | 1,602,151                               | 1,329,310                               | 272,841      |
| Net Loss   | \$ (6,412,171)                          | (3,631,374)                             | \$ 2,780,797 |

We did not produce or sell any gold or silver at our Comstock project in Nevada during the six month period ended June 30, 2009 and June 30, 2008. In February 2007, we shifted our focus to geology and developmental / in-fill drilling and suspended mining activities.

Reclamation, Exploration and Test Mining Expenses were \$ 650,992 greater for the six month period ended June 30, 2009 compared to the six month period ended June 30, 2008. The variance reflects the increased developmental drilling activities in 2009 and the permit application cost.

The six month period ended June 30, 2009 General and Administrative expenses decreased by \$410,790 from the first six months of 2008. General and Administrative expenses were higher for the six month period ended June 30, 2009 because of employee stock option expense of \$429,000. This compares to \$0 for the six month period ended June 30, 2009.

Consulting and professional expenses for the six month period ended June 30, 2009 were \$145,406 compared to \$58,959 for the six month period ended June 30, 2008, amounting to \$86,447 increase. The increase in expenses reflects higher legal fees and the contracting of a consultant during the second calendar quarter 2009.

The 2009 Financing cost – warrant issuance expense represents the fair value calculation for the 95 million warrants issued in conjunction with six (6) private placements during the quarter plus the 60 million warrants issued in conjunction with the May 2009 financing. The fair value of each warrant was estimated at the date of the grant using the Black-Scholes option pricing model. Black-Scholes utilizes assumptions related to volatility, the risk free interest

rate, the dividend yield (which is assumed to be zero, as the Company has not paid, nor anticipates paying any, cash dividends and employee exercise behavior. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company's stock price and other factors.

Other, net of increase of \$610,407 in the 2009 compared to 2008 reflects an accrual adjustment to liquidated damages resulting from the extinguishment of debt.

Interest expense for the six month period ended June 30, 2009 increased by \$207,696 from the six month period June 30, 2008. This variance reflects the issuance of additional interest bearing notes (\$17.4 million of interest bearing debt at June 30, 2009 compared to \$14.0 million at June 30, 2008) and debt discount of \$65,144 associated with fair value calculation for the May 2009 financing.

Our Company is a Test Mining 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 and all drilling were expensed.

### Liquidity and Capital Resources

We recognize that our cash resources are limited. Our continued existence and plans for mining production depend on our ability to obtain the capital necessary to operate, through the issuance of additional debt, royalty financing or equity. During the first six months of 2009, we secured an aggregate of \$2,950,000 in financing. Specifically, we raised \$950,000 through six private placements during the first calendar quarter of 2009 and In May 2009 we secured \$2 million if formal debt commitments of which \$1.5 million has been funded as of the date of this report. While this additional funding may meet our immediate working capital needs, if we are not able to generate sufficient revenues and cash flows or obtain additional or alternative funding, we will be unable to continue as a going concern. We have yet to realize an operating profit at our Company. As disclosed in the report of our independent registered public accounting firm in our financial statements Form 10-K for the year ended December 31, 2008, our recurring losses and negative cash flow from operations raise substantial doubt about our ability to continue as a going concern.

As of June 30, 2009, the Company is in default of the terms on several outstanding notes payable with the Winfield Group totaling \$11,869,986 of principal and \$3,206,442 of interest. The Winfield Group consists of Mr. Winfield, Sante Fe Financial Corporation, Portsmouth Square and InterGroup Corporation, Combined, the Winfield Group represent the Company's largest creditor and a significant stockholder. Mr. Winfield is affiliated with these Companies through a direct controlling interest and/or as their Chairman of the Board. Because we are in default, the entire note balances of the defaulted notes have been recorded as current liabilities.

### Item 3. Quantitative and Qualitative Disclosures About Market Risks

An investment in our common stock involves risk. You should carefully consider the following risk factors.

Our exposure to market risk for changes in interest rates relates primarily to the market-driven increase or decrease in interest rates, and the impact of those changes on the Company's ability to realize a return on invested or available funds. We ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and reinvestment risk. We mitigate default risk by investing in short term high-credit investment grade securities and/or commercial checking and savings accounts.

### ITEM 4. CONTROLS AND PROCEDURES

#### A. Disclosure

As of the end of the period covered by this Annual Report on Form 10-Q, management performed, with the participation of our Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure

controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on the evaluation as described above, our internal control over disclosure controls and procedures as of June 30, 2009 are effective.

## B. Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company in accordance with as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized transactions.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework and Internal Control over Financial Reporting-Guidance for Smaller Public Companies.

We believe that internal control over financial reporting is effective as of December 31, 2008. This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

There have been no changes during the quarter ended June 30, 2009 in our Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rules 13a-15(d) and 15d-15(d) that have material affected, or are reasonably likely to materially affect, our internal controls over our financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we are involved in lawsuits, claims, investigations and proceedings that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

### Item 1A. 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

Our independent auditors report on our financial statements indicates that our recurring losses from operations and working capital deficit raise substantial doubt about our ability to continue as a going concern

Inability to raise sufficient funds to increase growth

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

We 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 is 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, a 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 anticipate expending sums for additional drilling and analysis to establish proven or probable reserves on our properties. 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 may 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.

We depend on key personnel, and our business may be severely disrupted if we lose the services of our key executives and employees.

Our business is dependent upon the knowledge and experience of our key engineers and executive officers. Given the competitive nature of our industry, there is the risk that one or more of our key engineers will resign their positions, which could have a disruptive impact on our operations. If any of our key engineers or executive officers do not continue in their present positions, we may not be able to easily replace them and our business may be severely disrupted. If any of these individuals joins a competitor or forms a competing company, we could lose important know-how and experience and incur substantial expense to recruit and train suitable replacements. Currently, only one of our key employees has an employment contract which has a remaining term of at least 12 months and non-compete provisions. This lack of employment contracts and binding non-compete provisions significantly enhances the risk of possibly losing these key personnel to our competitors.



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 operational 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 June 30, 2009 we had outstanding 3,609,751,058 shares of common stock. In addition, we had outstanding convertible notes and related interest plus various common stock purchase warrants. At June 30, 2009, these notes, related interest and warrants were convertible into or exercisable for a total of approximately 1.8 billion additional shares of our common stock, subject to further anti-dilution provisions.

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

Our stock is a penny stock. The Securities and Exchange Commission has adopted Rule 15c-2-07, 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. Unregistered Sales of Equity Securities and Use of Proceeds

The following private placement transactions raised a total of \$950,000 in exchange for 95,000,000 shares of our unregistered Common stock, were placed with accredited investors. In general, the proceeds were used to fund exploratory drilling and for general working capital.

- In the first quarter 2009, \$950,000 for 95,000,000 shares at \$0.01 per share and 95,000,000 warrants. The warrants have an exercise price of \$.015 and a term of six years

### Employees and directors

During the six month period ended June 30, 2009, the following shares were issued to employees and Company directors:

- Pursuant to his employment agreement, Larry Martin, the Company's Chief Geologist, was issued a total of 2,000,000 of our unregistered common shares, valued at \$28,500 or \$0.0145 per share during 2009.
- Pursuant to his agreement with the Company, Dennis Anderson, the Company's Senior Engineer, was issued a total of 2,500,000 of our unregistered common shares, valued at \$30,000 or \$0.012 per share during 2009.

As of June 30, 2009, Mr. Faber, President and CEO, has unpaid wages and expenses of \$132,623.

## Item 3. Defaults Upon Senior Securities

As of June 30, 2009, the Company is in default of the terms on several outstanding notes payable with the Winfield Group with principal balance due of \$11,869,986 and accrued interest of \$3,206,442 (See Note 8). Because we are in default, the entire note balances of the defaulted notes have been recorded as current liabilities.

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

Not applicable.

## Item 5. Other Information

None.

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

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

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

Consolidated Balance Sheet as of June 30, 2009 (Unaudited)

Consolidated Statement of Operations for the three-month periods ended June 30, 2009 and 2008 (Unaudited)

Consolidated Statement of Cash Flows for the three-month periods ended June 30, 2009 and 2008 (Unaudited)

Notes to Financial Statements

(2) Exhibits filed as part of this Report:

| Exhibit<br>Number | Exhibit  |
|-------------------|--|
| 23.11             | Sample Loan Documents from May 2009 Financing  |
| 31.1              | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended. |
| 32.1              | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |

(b) Reports filed on Form 8-K during the quarter ended June 30, 2009:  
None

SIGNATURES

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

GOLDSRING, INC.  
(Registrant)

Date: August 14, 2009

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

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