

FIRSTGOLD CORP.
Form 10-Q
October 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED April 30, 2009

Commission File Number 0-20722

FIRSTGOLD CORP.

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

DELAWARE

(State of other jurisdiction of incorporation or
organization)

1055 Cornell Avenue
Lovelock, NV

(Address of Principal Executive Offices)

16-1400479

(I.R.S. Employer Identification Number)

89419

Zip Code

Issuer's telephone number:

(775) 273-7800

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

YES ☐ NO ☒

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act)

YES ☐ NO ☒

Common stock, \$0.001 par value, of which 143,217,235 were issued and outstanding as of June 15, 2009.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ☒ NO ☐

Large accelerated filer ☐

Accelerated filer ☐

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Non-accelerated filer o

Smaller reporting company x

1

INDEX

	<u>Page</u>
<u>PART I - FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS</u>	24
<u>ITEM 4T. CONTROLS AND PROCEDURES</u>	35
<u>PART II - OTHER INFORMATION</u>	35
<u>ITEM 1A. FACTORS AFFECTING FUTURE OPERATING RESULTS</u>	35
<u>ITEM 2. UNREGISTERD SALES OF EQUITY SECURITIES</u>	38
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	38
<u>ITEM 6. EXHIBITS</u>	39

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRSTGOLD CORP.
INDEX TO UNAUDITED FINANCIAL STATEMENTS

	<u>Page</u>
<u>Condensed Balance Sheet as of April 30, 2009 (Unaudited) and for fiscal year ended January 31, 2009 (Audited)</u>	4
<u>Condensed Statements of Operations for the three months ended April 30, 2009 and 2008 (Unaudited)</u>	6
<u>Condensed Statements of Cash Flows for the three months ended April 30, 2009 and 2008 (Unaudited)</u>	7
<u>Notes to Unaudited Financial Statements</u>	9
3	

FIRSTGOLD CORP.
(AN EXPLORATION STAGE COMPANY)
BALANCE SHEET

	April 30, 2009	January 31, 2009
	(unaudited)	
ASSETS		
Current assets:		
Cash	\$ 1,598	\$ 15,666
Receivables	16,810	81,339
Deposits	7,368	7,368
Prepaid expense	227,893	285,180
Total current assets	253,669	389,553
Property, plant and equipment , net of accumulated depreciation of \$1,267,467 and \$936,744 at April 30, and January 31, 2009, respectively	16,128,734	16,452,452
Other Assets		
Restricted cash	2,967,983	2,967,983
Total assets	\$ 19,350,386	\$ 19,809,988
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities		
Accounts payable	\$ 3,279,587	\$ 2,543,137
Accrued expenses	3,057,003	1,716,169
Senior secured notes net of deferred financing costs of \$5,005,255 and \$5,701,291 and original issue discount of \$999,023 and \$1,275,808 at April 30, and January 31, 2009, respectively	6,002,923	5,022,901
Convertible debentures net of deferred financing costs of \$7,907 and \$12,662 at April 30, and January 31, 2009, respectively	642,093	637,338
Notes payable	1,258,520	1,265,675
Total current liabilities	14,240,126	11,185,220
Long-term liabilities		
Accrued reclamation costs	2,866,989	2,866,989
Deferred revenue	800,000	800,000
Total long-term liabilities	3,666,989	3,666,989
Total liabilities	17,907,115	14,852,209

FIRSTGOLD CORP.
(AN EXPLORATION STAGE COMPANY)
BALANCE SHEET

	April 30, 2009	January 31, 2009
	(unaudited)	
Commitments and contingencies		
Shareholders' surplus (deficit)		
Common stock, \$0.001 par value 250,000,000 shares authorized at April 30, and January 31, 2009, respectively		
143,217,235 and 136,565,544 shares issued and outstanding at April, and January 31, 2009, respectively	143,217	136,566
Additional paid in capital	51,760,278	50,656,578
Deficit accumulated during the exploration stage	(50,460,223)	(45,835,365)
	<u>1,476,359</u>	<u>4,957,779</u>
Total shareholders' surplus (deficit)	<u>1,476,359</u>	<u>4,957,779</u>
Total liabilities and shareholders' surplus (deficit)	\$ 19,350,386	\$ 19,809,988

FIRSTGOLD CORP.
(AN EXPLORATION STAGE COMPANY)
STATEMENTS OF OPERATIONS
For the Three Months Ended April 30, 2009 and 2008
and for the Period from January 1, 1995 to April 30, 2009

	For the Three Months Ended April 30,		For the Period From January 1, 1995 to April 30, 2009
	2009	2008	
Services revenue	\$ 88,718	\$ 275,793	\$ 1,486,216
Costs and expenses			
Costs of services	(167,029)	(453,522)	(2,541,082)
Exploration and maintenance costs	(1,439,841)	(1,119,403)	(10,145,995)
General and administrative	(1,250,667)	(1,179,528)	(27,386,116)
Depreciation	(330,722)	(105,187)	(1,316,281)
Total costs and expenses	(3,188,259)	(2,857,640)	(41,389,474)
Loss from operations	(3,099,541)	(2,581,847)	(39,903,258)
Other (expense)			
Interest income	23,878	21,063	358,844
Dividend income			30,188
Gain on settlement of obligations			6,565
Other income			1,149,375
Adjustments to fair value of derivatives			(1,357,903)
Interest expense	(1,549,195)	(34,606)	(8,324,569)
Loss from joint venture			(859,522)
Loss on sale of marketable securities			(281,063)
Bad debt expense			(40,374)
Loss on disposal of plant, property and equipment			0 (275,713)
Loss on disposal of bond			(21,000)
Total other income (expense)	(1,525,317)	(13,543)	(9,615,172)
Net loss	\$ (4,624,858)	\$ (2,595,390)	\$ (49,518,430)
Basic and diluted loss per share	(\$ 0.03)	(\$ 0.02)	
Basic and diluted weighted-average shares outstanding	141,078,275	125,370,254	

FIRSTGOLD CORP.
(AN EXPLORATION STAGE COMPANY)
STATEMENTS OF CASH FLOWS
For the Three Months Ended April 30, 2009 and 2008
and for the Period from January 1, 1995 to April 30, 2009

	For the Three Months Ended April 30,		For the Period
	2009	2008	From January 1, 1995 to April 30, 2009
Cash flows from operating activities			
Net loss	\$ (4,624,858)	\$ (2,595,314)	\$ (49,518,430)
Adjustments to reconcile net loss to net cash used in operating activities			
Accretion of warrants issued as a debt discount	449,527	10,553	2,701,807
Accretion of original issue discount	276,785		800,977
Accretion of debt discount	251,264		358,732
Accretion of beneficial conversion			
Adjustments to fair value of derivatives			1,357,902
Loss from joint venture			859,522
Loss on sale of marketable securities			281,063
Depreciation and amortization	439,066	109,942	2,261,188
Loss on disposal of property, plant and equipment			334,927
Impairment in value of property, plant and equipment			807,266
Loss on disposal of bond			21,000
Impairment in value of Relief Canyon Mine			3,311,672
Impairment in value of joint investments			490,000
Bad debt			40,374
Assigned value of stock and warrants exchanged for services	42,000		2,312,632
Assigned value of stock options issue for compensation		59,311	321,648
Gain on write off of note payable			(7,000)
Judgment loss accrued			250,000
(Increase) decrease in			
Restricted cash			(2,967,983)
Receivables	64,529	138,428	149,264
Deposits		196,313	(2,868)
Deferred reclamation costs			2,401,511
Prepaid expenses	57,287	(39,432)	(230,793)
Inventory		(281,641)	
Reclamation bonds			(1,600)
Other assets			
Increase (decrease) in			
Accounts payable	736,450	(1,931,974)	3,008,271
Accrued expenses	1,410,834	(31,323)	(23,319,627)
Net cash used by operating activities	(897,116)	(4,302,491)	(897,116)
Cash flows from investing activities			
Proceeds from sale of marketable securities			(315,188)
Investment in marketable securities			7,436
Advances from shareholder			775,000
Contribution from joint venture partner			(900,000)
Purchase of joint venture partner interest			(18,255,330)
Capital expenditures	(7,005)	(2,730,894)	#REF!

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Proceeds from disposal of property, plant and equipment			278,783
Investments in joint ventures			(490,000)
Note receivable			268,333
Repayment of note receivable			(268,333)
Net cash used by investing activities	(7,005)	(2,730,894)	(7,005)
Cash flows from financing activities			
Proceeds from the issuance of common stock	890,008	7,652,064	(3,146,886)
Proceeds from notes payable	67,200		(164,463)
Principal repayments of notes payable	(67,155)	(111,586)	732,795
Repayment of advances to affiliate			44,770,947
Deferred revenue		(137,650)	
Net cash provided by financing activities	890,053	7,402,828	1,266,589
Net increase (decrease) in cash	(14,068)	785,397	369,155
Cash, beginning of year	15,666	383,223	6,687
Cash, end of year	\$ 1,598	\$ 1,168,620	\$ 369,155

Supplemental cash flow information for the three months ended April 30, 2009 and 2008 and January 1, 1995 through April 30, 2009 as follows:

	For the Three Months Ended April 30, 2009	For the Three Months Ended April 30, 2008	For the Period From January 1, 1995 to April 30, 2009
Cash paid for interest	\$	\$	\$ 161,107
Cash paid for income taxes	\$	\$	\$
Non Cash Investing and Financing Activities:			
Conversion of related party note payable to common stock, including interest payable of \$446,193	\$	\$	\$ 1,848,935
Conversion of convertible debentures to common stock, including interest of \$217,151	\$	\$	\$ 4,359,609
Issuance of warrants as financing costs in connection with convertible debt	\$	\$	\$ 173,114
Issuance of common stock as payment for settlement of liabilities	\$ 42,000	\$	\$ 81,000

FIRSTGOLD CORP.
(AN EXPLORATION STAGE COMPANY)
NOTES TO FINANCIAL STATEMENTS
For the Three Months Ended April 30, 2009

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

Firstgold Corp. has a business strategy whereby it will invest in, explore and if warranted, conduct mining operations of its current mining properties and other mineral producing properties. Firstgold is a public company that in the past has been engaged in the acquisition and exploration of gold-bearing properties in the continental United States. Currently, Firstgold's principal assets include various mineral leases associated with the Relief Canyon Mine located near Lovelock, Nevada along with various items of mining equipment and improvements located at that site. Firstgold has staked claims in anticipation of exploring on approximately 9,800 acres of property located in the Horse Creek, Fairview Hunter and Honorine Gold areas of Nevada.

From 1995 until the beginning of 2000, Firstgold had followed the above described business activity focusing on the exploration and mining of gold and silver ore deposits. At the beginning of 2000, Firstgold's business strategy became focused on investing in Internet start-up companies. That strategy was not successful and by mid-2001 Firstgold had abandoned such investments. From approximately July 2001 until February 2003 Firstgold had been inactive. During the period of inactivity, ASDi LLC, an entity controlled by A. Scott Dockter who was also the Chief Operating Officer of Firstgold, made the necessary expenditures to maintain the current status of the Relief Canyon mining claims. In February 2003, Firstgold resumed its business of acquiring, exploring and if warranted developing its mining properties.

NOTE 2 - GOING CONCERN

These financial statements have been prepared on a going concern basis. During the years ended January 31, 2009 and 2008 and the period from January 1, 1995 to January 31, 2009, Firstgold incurred net losses of approximately \$14,444,225, \$7,632,537 and \$44,893,572, respectively. In addition, while Firstgold had a total shareholders' surplus of \$4,957,779 it has been in the exploration stage since inception and through April 30, 2009. Information for the three months ended April 30, 2009 include a net loss of \$4,624,858, negative cash flows from operations of \$897,116 and a deficit accumulated during the exploration stage of \$50,427,136. The Company's ability to continue as a going concern is dependent upon its ability to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The outcome of these matters cannot be predicted with any certainty at this time. Since inception, the Company has satisfied its capital needs by issuing equity and debt securities.

Management plans to continue to provide for its capital needs during the year ending January 31, 2010 by issuing equity securities or incurring additional debt financing, with the proceeds to be used to re-establish mining operations at Relief Canyon as well as improve its working capital position. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnotes normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to these rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in Firstgold's Form 10-K, as filed with the SEC for the year ended January 31, 2009.

Exploration Stage Company

Effective January 1, 1995 (date of inception), the Company is considered an exploration stage Company as defined in SFAS No. 7. The Company's exploration stage activities consist of the exploration of several mining properties located in Nevada. Sources of financing for these exploration stage activities have been primarily debt and equity financing. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash represents certificates of deposit with Umpqua Bank to serve as collateral for a reclamation bond with the Nevada Department of Environmental Protection at the Relief Canyon Mine.

Property and Equipment

Depreciation, depletion and amortization of mining properties, mine exploration costs and major plant facilities will be computed principally by the units-of-production method based on estimated proven and probable ore reserves once production begins. Proven and probable ore reserves reflect estimated quantities of ore which can be economically recovered in the future from known mineral deposits. Such estimates are based on current and projected costs and prices. Other equipment (prior to production, all equipment) is depreciated using the straight-line method principally over the estimated useful life of the respective asset.

Deferred Reclamation Costs

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement was adopted February 1, 2003. The reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and revisions to either the timing or amount of the original present value estimate.

Prior to adoption of SFAS No. 143, estimated future reclamation costs were based principally on legal and regulatory requirements. Such costs related to active mines were accrued and charged over the expected operating lives of the mines using the Units Of Production method based on proven and probable reserves. Future remediation costs for inactive mines were accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at a site. Such cost estimates included, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines were reflected in earnings in the period an estimate was revised.

Exploration Costs

Exploration costs are expensed as incurred. All costs related to property acquisitions are capitalized.

Mine Development Costs

Mine development costs consist of all costs associated with bringing mines into production, to develop new ore bodies and to develop mine areas substantially in advance of current production. The decision to develop a mine is based on assessment of the commercial viability of the property and the availability of financing. Once the decision to proceed to development is made, development and other expenditures relating to the project will be deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation will be charged against the property until commercial production commences. After a mine has been brought into commercial production, any additional work on that property will be expensed as

incurred, except for large development programs, which will be deferred and depleted.

Financing Costs

Financing costs, including interest, are capitalized when they arise from indebtedness incurred to finance development and construction activities on properties that are not yet subject to depreciation or depletion. Capitalization is based upon the actual interest on debt specifically incurred or on the average borrowing rate for all other debt except where shares are issued to fund the cost of the project.

Depreciation, Depletion and Amortization

Assets other than mining properties and mineral rights are depreciated using the straight-line method over their estimated useful lives. Capitalized development costs are amortized on the units of production method considering proven and probable reserves. Depreciation and depletion rates are subject to periodic review to ensure that asset costs are amortized over their useful lives.

Impairment

Mining projects and properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. If estimated future cash flows expected to result from the use of the mining project or property and its eventual disposition are less than the carrying amount, impairment is recognized based on the estimated fair value of the mining project or property. Fair value generally is based on the present value of estimated future net cash flows for each mining project or property, calculated using estimates of proven and probable mineable reserves, geological resources, future prices, operating costs, capital requirements and reclamation costs. A provision for impairment in valuation of development costs and property, plant and equipment amounted to \$800,000 for the year ended January 31, 2002 and was charged to operating expense. After these adjustments all development costs and property, plant and equipment have been fully written off.

Management's estimates of future cash flows are subject to risks and uncertainties. Therefore, it is reasonably possible that changes could occur which may affect the recoverability of the Company's investment in mineral properties.

Risks Associated with Gold Mining

The business of gold mining is subject to certain types of risks, including environmental hazards, industrial accidents, and theft. While the Company maintains insurance consistent with industry practice, it is not possible to insure against all risks associated with the mining business, or prudent to assume that insurance will continue to be available at a reasonable cost. The Company has not obtained environmental liability insurance because such coverage is not

considered by management to be cost effective.

Reclamation Costs

Reclamation costs and related accrued liabilities, which are based on the Company's interpretation of current environmental and regulatory requirements, are accrued and expensed, upon determination.

Based on current environmental regulations and known reclamation requirements, management has included its best estimates of these obligations in its reclamation accruals. However, it is reasonably possible that the Company's best estimates of its ultimate reclamation liabilities could change as a result of changes in regulations or cost estimates.

Valuation of Derivative Instruments

FAS No. 133 Accounting for Derivative Instruments and Hedging Activities requires bifurcation of embedded derivative instruments and measurement of their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black Scholes model as a valuation technique. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as Adjustments to Fair Value of Derivatives. In addition, the fair values of freestanding derivative instruments such as warrants are valued using Black Scholes models.

Revenue Recognition

Revenues will be recognized when deliveries of gold are made, title and risk of loss passes to the buyer and collectibility is reasonably assured. Deferred revenue represents non-refundable cash received in exchange for royalties on net smelter returns on the Relief Canyon Mine. Deferred revenue will be amortized to earnings based on estimated production in accordance with the royalty agreement.

Fair Value of Financial Instruments

The carrying amount reflected in the balance sheets for cash, cash equivalents, loans and notes payable approximate the respective fair values due to the short maturities of these instruments. Available-for-sale marketable securities and hedging instruments also are recorded at fair value in the balance sheets. The fair values for held-to-maturity marketable debt securities, investments, receivables, and long-term debt are based primarily on quoted market prices for those or similar instruments.

Comprehensive Income

The Company utilizes SFAS No. 130, Reporting Comprehensive Income. This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes

all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale marketable securities. Comprehensive income is presented in the Company's financial statements since the Company did have unrealized gain (loss) from changes in equity from available-for-sale marketable securities.

Income Taxes

The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

As of January 31, 2009, the deferred tax assets related to the Company's net operating loss carry-forwards are fully reserved. Due to the provisions of Internal Revenue Code Section 382, the Company may not have any net operating loss carry-forwards available to offset financial statement or tax return taxable income in future periods as a result of a change in control involving 50 percentage points or more of the issued and outstanding securities of the Company.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Loss Per Share

The Company utilizes SFAS No. 128, Earnings per Share. Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

The following common stock equivalents were excluded from the calculation of

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

diluted loss per share since their effect would have been anti-dilutive:

	2009	2008
Warrants	31,722,164	46,655,918

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with high credit, quality financial institutions. At times, such cash and cash equivalents may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Recent Accounting Pronouncements

In December 2007, the FASB released FAS 141R, Business Combinations and FAS 160, Non-controlling Interests in Consolidated Financial Statements. Both standards will be effective for transactions that occur after January 1, 2009. FAS 141R applies to all business combinations and will require the acquiring entity to recognize the assets and liabilities acquired at their respective fair value. This standard changes the accounting for business combinations in several areas. If we complete an acquisition after the effective date of FAS 141R, some of these changes could result in increased volatility in our results of operations and financial position. For example, transaction costs, which are currently capitalized in a business combination, will be expensed as incurred. Additionally, pre-acquisition contingencies (such as in-process lawsuits acquired) and contingent consideration (such as additional consideration contingent on specified events in the future) will be recorded at fair value at the acquisition date, with subsequent changes in fair value reflected in our results of operations. Under current accounting guidance, adjustments to these contingencies are reflected in the allocation of purchase price if they occur within a certain period of time after the acquisition date.

NOTE 4 - PROPERTY AND EQUIPMENT

	At April 30,	At January 31
	2009	2009
Land	\$ 266,977	\$ 266,977
Buildings	433,952	433,952
Mining equipment	2,922,637	2,922,637
Crushing system	2,609,183	2,609,183
Process plant	4,263,925	4,263,925
Site costs	1,542,887	1,535,882
Lab & equipment	1,162,934	1,162,934
Other	1,326,717	1,326,717
Asset retirement costs	2,866,989	2,866,989
Total property, plant and equipment	17,397,201	17,389,196
Less accumulated depreciation	(1,267,467)	(936,744)
Total	\$ 16,128,734	\$ 16,452,452

NOTE 5 - NOTES PAYABLE

Notes payable consist of the following at April 30, 2009:

Equipment notes payable	\$ 551,727
The first note does not bear any interest and is due in December 2010. The second note bears interest at 8.6% and is due June 2011. The third note bears interest at 5.7% and is due June 2013. The fourth note bears interest at 9% and is due December 2011. The fifth note bears interest at 7.5% and is due June 2013. The loans are secured by various items of vehicles, machinery and equipment.	
Mortgage notes payable	314,248
The first note of \$246,748 bears interest at 6.75% with monthly principal and interest payments and is due in September 2013. The second note of \$67,500 bears interest at 6.75% and is due June 2009 with accrued interest and principal due at maturity. If Firstgold completes required water line improvements to the property by the due date of the second note then the second note and accrued interest will be forgiven. The loans are secured by a building and five acres of land in Lovelock, NV.	
Short term notes payable	316,000
In November 2008 Firstgold entered into a note payable with a six month term and bears interest at 50% per annum. In April 2009 Firstgold entered into a note payable with a one year term that bears interest at 8% interest	
Insurance premium notes payable	76,545
The first note bears interest at 9.6%, is payable monthly and is due November 2009. The second note bears interest at 7% and is due December 2009.	
Total notes payable	<u>\$ 1,258,520</u>

Firstgold recorded interest expense of \$1,549,195 for the three months ended

April 30, 2009 compared to interest expense of \$34,605 for the three months April 30, 2008.

NOTE 6 CONVERTIBLE DEBENTURES AND SENIOR SECURED NOTES

October 2006 Convertible Debentures

In October 2006, Firstgold issued convertible debentures in the aggregate principal amount of \$650,000 and bearing interest of 8% per annum. The Debentures and accrued interest are convertible into shares of Firstgold common stock at a conversion rate of \$0.405 per share. The Debentures are due and payable three years from the date of issue unless they are converted into shares of the Company's common stock or are repaid prior to their expiration date. Additionally, the investors were issued warrants to purchase an aggregate of 746,843 shares of Firstgold common stock exercisable at \$0.45 per warrant. The warrants were issued as financing costs and total deferred financing cost of \$173,114 was recorded in relation to this debt.

August/September 2008 Senior Secured Promissory Notes

On August 7, 2008, Firstgold Corp. (the Company) entered into a Note and Warrant Purchase Agreement (the Agreement) with Platinum Long-Term Growth, LLC and Lakewood Group, LLC, two US-based investment funds (the Lenders). Pursuant to the Agreement, the Lenders will fund up to \$15,750,000 in Senior Secured Promissory Notes. Funding of the loan will occur in five tranches of which the first occurred at the initial closing on August 7, 2008 in the aggregate amount of \$6,742,625 (the Initial Note Amount). A first interim funding occurred August 27, 2008 in the amount of \$472,973. A second interim funding occurred September 10, 2008 in the amount of \$1,351,351. The second close funding occurred September 29, 2008 in the amount of \$3,433,051. Three additional tranches of \$1,250,000 each will be available during the months of November and December, 2008 and January 2009 subject to the Company achieving certain operational conditions. The loans bear an interest rate of 4% per annum with interest payments commencing in September, 2008. The loans are due and payable on March 1, 2010.

During the time that any debt remains owed to the Lenders the Agreement limits the Company's ability to incur any additional indebtedness and, the Company must obtain the Lender's consent to enter into certain future transactions including any future merger, sale of a substantial portion of its assets or becoming involved in any partnership or joint venture.

In conjunction with the making of the loan, the lenders were issued, on a pro rata basis, Warrants to purchase up to 15,000,000 shares of the Company's common stock at an exercise price of \$.4357 cents per share which may be adjusted downward based on future market conditions. The Warrants have a term of 3 years. The Warrants also provide for a Put Right in which the Warrant holder

after August 7, 2009 may require the Company to repurchase the Warrants at a redemption price of \$.30 per Warrant. The Put Right is exercisable for a period of one year.

The cost of the loan transaction includes an original issue discount of 15% on each note amount plus a 4% origination fee and 7% broker's commission.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

Except for the advance royalty and rent payments noted below, the Company is not obligated under any capital leases or non-cancelable operating leases with initial or remaining lease terms in excess of one year as of April 30, 2009. However, minimum annual royalty payments are required to retain the lease rights to the Company's properties.

Relief Canyon Mine

The Company purchased the Relief Canyon Mine from J.D. Welsh Associates (Welsh) in January 1995. The mine consisted of 39 claims and a lease for access to an additional 800 acres contiguous to the claims. During 1997, the Company staked an additional 402 claims. Subsequent to January 31, 1998, the Company reduced the total claims to 50 (approximately 1,000 acres). The annual payment to maintain these claims is \$5,000. As part of the original purchase of Relief Canyon Mine, Welsh assigned the lease from Santa Fe Gold Corporation (Santa Fe) to the Company. The lease granted Santa Fe the sole right of approval of transfer to any subsequent owner of the Relief Canyon Mine. Santa Fe had accepted lease and minimum royalty payments from the Company, but has declined to approve the transfer. Due to Welsh's inability to transfer the Santa Fe lease, the original purchase price of \$500,000 for Relief Canyon Mine was reduced by \$50,000 in 1996 to \$450,000.

Subsequent to January 31, 1998, the lease was terminated by Santa Fe. Management believes loss of the Santa Fe lease will have no material adverse affect on the remaining operations of the mine operation or the financial position of the Company.

During 1996, Repadre Capital Corporation (Repadre) purchased for \$500,000 a net smelter return royalty (Repadre Royalty). Repadre was to receive a 1.5% royalty from production at each of the Relief Canyon Mine and Mission Mines. In July 1997, an additional \$300,000 was paid by Repadre for an additional 1% royalty from the Relief Canyon Mine. In October, 1997, when the Mission Mine lease was terminated, Repadre exercised its option to transfer the Repadre Royalty solely to the Relief Canyon Mine resulting in a total 4% royalty. The total amount received of \$800,000 has been recorded as deferred revenue in the accompanying financial statements.

Litigation

On February 8, 2007, a complaint was filed against ASDi, LLC, Crescent Red Caps LLC, Firstgold, and Scott Dockter by the Lessors of the Crescent Valley and Red Caps mining properties. The complaint was filed in the Sixth Judicial District Court of Lander County, Nevada (Case No. 9661). In the complaint the plaintiffs allege that ASDi, LLC wrongfully assigned its lessee rights in the Crescent Valley and Red Caps mining properties to Crescent Red Caps LLC (of which Firstgold is the Managing Member). In late March, 2008 the parties reached a settlement agreement and the case was dismissed by the Court on April 4, 2008. As a result of the Settlement, Firstgold paid \$150,000 to Plaintiffs and Firstgold, ASDi LLC and Crescent Red Caps LLC relinquished all right, title and interest in the Red Caps and Crescent Valley leases to the Plaintiffs. Consequently, Firstgold no longer has any interest in these leases and will not pursue any further exploration activity on such leased property.

On September 24, 2007, a complaint was served on Firstgold by Swartz Private Equity, LLC. The complaint was filed in the District Court for the Western District of New York (Case No. 07CV6447). In the complaint, plaintiff alleges that pursuant to an Investment Agreement dated October 4, 2000, and entered into with Firstgold's former management, it is entitled to the exercise of certain warrants in the amount of 1,911,106 shares of Firstgold common stock or the equivalent cash value of \$0.69 per share and a termination fee of \$200,000. Firstgold filed an answer to the complaint on December 3, 2007 and expects to vigorously defend this action. The lawsuit is now in the discovery phase.

On January 30, 2008, a complaint was served on Firstgold by Park Avenue Consulting Group, Inc. The complaint was filed in the Supreme Court of the State of New York but was subsequently removed to the Federal District Court for the Southern District of New York (Case No. 08CV01850). In the complaint, plaintiff alleges that pursuant to a Retainer Agreement entered into on September 1, 2000, it is entitled to \$100,000 in retainer fees, \$43,874 in expenses, and 850,000 shares of common stock during the term of the agreement. In late October 2008 the parties reached a settlement agreement with an amendment to the settlement agreement reached in July 2009. As a result of the Settlement, Firstgold is to pay to the Plaintiff \$225,000 cash of which \$50,000 has been paid and \$175,000 remains outstanding as of April 30, 2009; issue 1,900,000 shares of common stock and issue 250,000 warrants to purchase shares of common stock at a price of \$0.4357 for a term of 3 years. As of April 30, 2009 a total of \$378,000 has been recognized as expense, which consists of the \$225,000 cash settlement and \$153,000 as the fair value of the stock on the date issued. Additionally \$30,188 was accounted for as both a debit and credit to additional paid in capital for the fair value of the warrants issued under the Black-Scholes option pricing model.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate dispositions of these matters will not have a material adverse effect on the Company's financial position, results of operations or liquidity.

NOTE 8 - SHAREHOLDERS' SURPLUS

Common Stock

In February 2009 warrants to purchase 2,080,000 shares of common stock were exercised at an exercise price of \$0.15 per share.

In March 2009 warrants to purchase 4,088,933 shares of common stock were exercised at an exercise price of \$0.15 per share.

In April 2009 the two senior secured lenders converted \$72,414 of accrued interest into 487,758 shares of common stock at a price of \$0.145 per share.

Warrants

The following table presents warrant activity from January 31, 2009 through April 30, 2009:

	<u>Number of Shares</u>	<u>Weighted - Average Exercise Price</u>
Outstanding, January 31, 2009	38,421,097	\$ 0.53
Exercised	(6,168,933)	\$ (0.15)
Expired	(530,000)	\$ (0.40)
Granted		\$
	<u>31,722,164</u>	<u>\$ 0.61</u>
Outstanding, April 30, 2009	31,722,164	\$ 0.61
Exercisable, April 30, 2009	31,722,164	\$ 0.61

Stock options

The 2006 Plan provides for the issuance of non-qualified or incentive stock options to employees, non-employee members of the board and consultants. The exercise price per share is not to be less than the fair market value per share of the Company's common stock on the date of grant. The Board of Directors has the discretion to determine the vesting schedule. Options may be either immediately exercisable or in installments, but generally vest over a three-year period from the date of grant. In the event the holder ceases to be employed by the Company, all

unvested options terminate and all vested installment options may be exercised within an installment period following termination. In general, options expire ten years from the date of grant. Stockholders voting at the 2007 Annual Stockholders meeting held on September 20, 2007 approved an increase in the shares issuable under the 2006 Plan to a total of 10,000,000.

Effective February 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options based on their fair values. Firstgold had not previously issued any stock options prior to adoption of the 2006 Plan. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) to provide guidance on SFAS 123(R). The Company has applied SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method as of and for the three months ended April 30, 2008. In accordance with the modified prospective transition method, the Company's financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Share-based compensation expense recognized is based on the value of the portion of share-based payment awards that is ultimately expected to vest. Share-based compensation expense recognized in the Company's Statement of Operations during the three months ended April 30, 2008 includes compensation expense for share-based payment awards granted during the current fiscal year.

In conjunction with the adoption of SFAS 123(R), the Company elected to attribute the value of share-based compensation to expense using the straight-line method. Share-based compensation expense related to stock options and restricted stock grants was \$0 and \$59,311 for the respective three months ended April 30, 2009 and 2008, and was recorded in the financial statements as operating expense.

A summary of the Company's stock option activity is as follows:

	# of Shares	Weighted Ave. Exercise Price	Aggre- gate Intrinsic Value
Outstanding as of January 31, 2009	5,793,999	\$ 0.61	\$ 0
Granted	0	\$ 0.00	
Exercised	0	\$ 0.00	
Cancelled	(1,000,000)	\$ 0.75	
Outstanding as of April 30, 2009	4,793,999	\$ 0.59	\$ 0
Exercisable as of April 30, 2009	3,635,812	\$ 0.59	\$ 0

As stock-based compensation expense recognized in the consolidated statement of operations pursuant to SFAS No. 123(R) is based on awards ultimately expected to vest, expense for grants beginning upon adoption of SFAS No. 123(R) on February 1, 2006 will be reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

NOTE 9 SUBSEQUENT EVENTS

In May 2009 three lenders loaned Firstgold \$300,703. The loans bear interest of 18%, with principal and accrued interest due in one year. The loans are convertible into common shares of Firstgold at a conversion price of \$0.15 per share. Additionally the lenders received a right to purchase from future gold production of Firstgold gold at \$500 per ounce for every \$200 advanced by the lenders. Accordingly the lenders can purchase in total up to 1,503 ounces of gold from future production.

In May 2009 four directors and officers plus three employees converted \$249,271 owed to them for various fees and salary into convertible loans. The loans bear interest of 18%, with principal and accrued interest due in one year. The loans are convertible into common shares of Firstgold at a conversion price of \$0.15 per share. Additionally the lenders received a right to purchase from future gold production of Firstgold gold at \$500 per ounce for every \$200 advanced by the lenders. Accordingly the lenders can purchase in total up to 1,246 ounces of gold from future production.

In May 2009 a note payable for \$256,000 became past due. The lender has not demanded payment and currently Firstgold is negotiating with the lender regarding this matter.

In June 2009 \$302,565 of convertible debt and accrued interest were converted into 2,086,653 shares of common stock at a price of \$0.145 per share.

A second mortgage for \$67,500 due in June 2009 became past due and was in default. In July 2009 the lender began foreclosure proceedings on the building and improvements. In August 2009 Firstgold and the lender completed a forbearance agreement whereby Firstgold will prepay one year of interest at 7% on the mortgage while continuing to maintain its obligations to complete the water line improvements referred to Note 5 above.

In July 2009 Firstgold entered into a Binding Offer Letter and certain implementing agreements, documenting an agreement in principle with a new investor, to acquire the two currently outstanding senior secured promissory

notes. Among other things, the investor would assume the security interests and title liens currently held by the existing senior secured lenders thus making the investor Firstgold's primary secured lender. As part of the transaction, the investor has also agreed to subscribe for common shares of Firstgold representing 51% of the outstanding common shares (after giving effect to the subscription) for US \$9,500,000 and has also agreed to provide a US \$5,500,000 loan facility to Firstgold to fund working capital. The proposed transaction is subject to a number of conditions, including completion of due diligence by the investor to its satisfaction, negotiation and execution of definitive agreements and documents contemplated by the transaction, and obtaining all required government, regulatory and shareholder approvals. Pre-loan funding representing an initial deposit provided for in the Binding Offer Letter was received on July 16, 2009. Upon closing of the transaction, the current secured lenders have agreed to drop all legal actions against the Company and its officers. On September 23, 2009 the new investor and Firstgold entered into a Letter of Undertakings which, among other things, extends the closing to December 1, 2009.

In July 2009 an irrevocable Letter of Credit from Umpqua Bank in favor of the U.S. Department of Interior, Bureau of Land Management in the amount of U.S. \$2,183,846, representing a portion the reclamation bond for the Relief Canyon Mine was called. The letter of credit was secured by a certificate of deposit in the amount of \$2,293,126; \$2,183,846 of the certificate of deposit was used to satisfy the letter of credit and now represents a cash bond on deposit with the Bureau of Land Management.

In September 2009 six lenders loaned Firstgold \$600,000. The loans bear interest of 12%, with principal and accrued interest due in one year. The loans are convertible into common shares of Firstgold at a conversion price of \$0.15 per share. Additionally the lenders received a right to purchase from future gold production of Firstgold gold at \$500 per ounce for every \$200 advanced by the lenders. Accordingly the lenders can purchase in total up to 3,000 ounces of gold from future production.

In September 2009 a convertible note holder converted outstanding principal and accrued interest and outstanding warrants totaling \$503,885 into 13,858,619 shares of common stock at a price of \$0.0363 per share.

In September 2009 a promissory note holder converted outstanding principal totaling \$70,703 plus options to purchase 1,871 ounces of gold from future production of Firstgold into 16,384,717 shares of common stock at a price of \$0.043 per share.

In September 2009 a promissory note holder converted outstanding principal and accrued interest totaling \$115,000 plus options to purchase 575 ounces of gold from future production of Firstgold into 6,900,000 shares of common stock at a price of \$0.05 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Caution About Forward-Looking Statements

This Form 10-Q includes forward-looking statements about future financial results, future business changes and other events that haven't yet occurred. For example, statements like Firstgold expects, anticipates or believes are forward-looking statements. Investors should be aware that actual results may differ materially from Firstgold's expressed expectations because of risks and uncertainties about the future. Firstgold does not undertake to update the information in this Form 10-Q if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of Firstgold's business are discussed in Firstgold's Form 10-K as well as throughout this Form 10-Q and should be considered carefully.

Overview

We are an exploration-stage company engaged in the acquisition, exploration and, if warranted, development of various mining properties located in the State of Nevada. We are currently conducting a comprehensive exploration and development program on various mineral leases associated with our Relief Canyon Mine property located near Lovelock, Nevada. The Relief Canyon Mine Property consists of 166 claims including 120 mill site claims and 46 unpatented mining claims. Since February 1, 2007 we have completed drilling 83 reverse circulation drill holes. We have also drilled a total of 57 sonic holes in the existing heap leach pads to assess the economic potential of reprocessing the ore and extracting any remaining gold. These drill results will be added to the historic drill hole database to help develop a new mining plan for Relief Canyon Mine property.

In preparation for the resumption of ore processing at the Relief Canyon Mine, on August 7, 2007 we received an Approval of the Relief Canyon Mine Heap reprocessing amendment to the Plan of Operations from the Bureau of Land Management (BLM). In conjunction with the BLM action, Firstgold increased its posted reclamation bond to \$2.8 million with the BLM.

On August 16, 2008 an Amended Reclamation Permit No. 264 issued by the Nevada Division of Environmental Protection (NDEP) became final. In addition, Firstgold has recently received its Water Pollution Control Permit and Air quality Permit from the NDEP.

The above approvals and permits allow Firstgold to begin construction of a new heap leach pad and to construct and operate an ADR Process Plant and crushing facility at the Relief Canyon Mine site. On December 15, 2008 we completed the new heap leach pad and on December 16, 2008 commenced stacking ore on the pad. We began reprocessing material on existing heaps in November, 2008 and began applying cyanide solution to the material on our heap leach pads in February, 2009. As a result of the application of the

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

cyanide solution, the resulting solution began flowing through the recently completed processing facility and on March 5, 2009 the first carbon filters were extracted and shipped off-site for processing.

In April, 2009 Firstgold's two primary lenders declared defaults under their respective Senior Secured Promissory Notes. Consequently, until new financing can be obtained we have been forced to suspend any additional processing activity at the plant and will run the Relief Canyon operation on a care and maintenance basis until such time as full operations can be restored.

We have conducted preliminary sampling of approximately 4,200 acres of potentially mineralized ground in the Horse Creek area located approximately 100 miles northeast of Reno, Nevada. During the course of the property evaluation, rock chip samples were collected showing the potential presence of intrusion-related mineral systems. During the third quarter we commenced the extensive mapping of the area's bedrock geology. Additionally, we plan to conduct an airborne geophysical survey to map the magnetic character of the rocks. Geochemical exploration efforts continued with more rock chip sampling as well as an in-depth soil sampling survey.

On January 11, 2008 we secured claims on approximately 2,300 acres of potentially mineralized ground near Fairview, Nevada referred to as the Fairview-Hunter property. We are conducting preliminary sampling of the area. During the course of the property evaluation, rock chip samples were collected. The next phase of this project will be to conduct extensive mapping of the area's bedrock geology. Additionally, we plan to conduct an airborne geophysical survey to map the magnetic character of the rocks. Geochemical exploration efforts will continue with more rock chip sampling as well as an in-depth soil sampling survey.

On February 22, 2008, we secured claims on approximately 3,300 acres of potentially mineralized ground north of Winnemucca, Nevada referred to as the Honorine Gold property. We are conducting preliminary sampling of the area. During the course of the property evaluation, rock chip samples were collected. The next phase of this project will be to conduct extensive mapping of the area's bedrock geology. We completed the initial sampling and 6 drill holes on the project. Drill results from this first round of drilling are expected only to provide basic geologic information and direction for future drill work. Additionally, we plan to conduct an airborne geophysical survey to map the magnetic character of the rocks. Geochemical exploration efforts will continue with more rock chip sampling as well as an in-depth soil sampling survey.

In July 2008, Firstgold opened a full service metals and mineral assay laboratory in leased buildings located in Lovelock, Nevada. The laboratory will process mineral samples from Firstgold's Relief Canyon Mine, other Firstgold exploration properties and provide excess capacity to process mined samples from other outside mining and exploration companies.

Restructuring Transaction

On July 16, 2009 we entered into a Binding Offer Letter with Northwest Non-Ferrous International Investment Company, Limited (Northwest) which has its headquarters in Xi'an Shaanxi Province, China. The Binding Offer Letter was amended on August 7, 2009. Pursuant to the Binding Offer Letter, the parties have agreed to prepare and enter into definitive agreements having an aggregate value of approximately \$26,500,000 and to make certain fundamental changes to Firstgold's Certificate of Incorporation and Bylaws to give effect to the Restructure transaction which collectively are referred to herein as the Restructuring. The capital infusion by Northwest will consist of three components. All dollar amounts are stated in US dollars.

Purchase of Notes

The first capital investment component of the Restructuring provides for Northwest to acquire the currently outstanding Senior Secured Promissory Notes held by Firstgold's primary creditors, Platinum Long Term Growth, LLC (Platinum) and Lakewood Group LLC (Lakewood) for a one-time payment of \$11,500,000. The Binding Offer Letter provides for Northwest to make an initial pre-loan payment of \$1,000,000 of which \$500,000 was allocated to Platinum and Lakewood as a nonrefundable deposit and \$500,000 was transferred to Firstgold to be used for working capital purposes. These funds were received by Firstgold's Canadian counsel on July 16, 2009. The balance of \$11,000,000 will be paid by Northwest to Platinum/Lakewood and Northwest will assume the existing secured promissory notes currently held by Platinum and Lakewood. Among other things, Northwest would assume all the security interests and title liens currently held by Platinum and Lakewood thus making Northwest our primary secured lender.

Working Capital Loan

The next capital investment component of the Restructuring is a \$5,500,000 loan to be made by Northwest to Firstgold which will be used to discharge indebtedness to unsecured creditors and for general working capital. The loan will bear interest at a fixed rate of 10% per annum and the principal amount of the loan will be repaid in 24 equal monthly installments commencing on September 1, 2010. \$500,000 of the loan proceeds were previously advanced to Firstgold on July 16, 2009 with the balance to be advanced to Firstgold on or before August 31, 2009. See *Extension of Restructuring Transaction* below.

Subscription for Shares

The third capital investment component of the Restructuring is the purchase of shares of Firstgold common stock whereby, on or about September 30, 2009, and subject to shareholder approval and regulatory approval, Northwest will subscribe for that number of shares from the authorized but unissued (post-split) shares which will equal 51% of the then issued and outstanding shares of Firstgold common stock for an amount of \$9,500,000 (the Subscription Transaction) and result in a change of control of

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Firstgold. The proceeds from this subscription Transaction will be used for general working capital including the resumption of gold exploration and processing at Firstgold's Relief Canyon mining site.

Structural Changes Required by Northwest

As part of the Restructuring, Northwest is allowed to nominate three directors to the Firstgold Board of Directors with Mr. Sun Feng (Chairman of Northwest) being designated as the new Chairman of the Firstgold Board. In addition, the Amended and Restated Certificate of Incorporation will be amended to provide for the Chairman of the Board to have a casting vote meaning that in case of a tie vote on any matter properly coming before the Board, the Chairman will have two votes compared to one vote by each of the remaining Directors thus allowing the Chairman the deciding vote in case of a tie vote on the Board. Northwest will also be granted certain preemptive rights allowing it to maintain its 51% ownership interest when and if currently outstanding warrants are exercised.

Financial Changes Required by Northwest

As a further condition of the Restructuring, Firstgold was required to reduce the amount of debt owed to creditors. Consequently, Firstgold has entered into arm's length settlement arrangements with certain of its largest unsecured creditors whereby it will issue up to 72,151,842 shares of common stock, together with cash in the amount of approximately \$4,838,000 in exchange for the discharge of \$8,408,735 of original indebtedness and the cancellation of outstanding warrants exercisable into at least 44,394,000 shares of common stock. In addition, 31,300,000 shares are to be issued to settle compensation and other amounts owed to directors, officers and employees of Firstgold.

Voluntary Changes Deemed Beneficial to Firstgold

In addition to the changes required by Northwest described above, the Company is seeking stockholder approval for several other changes which the Board believes to be appropriate at this time including a 1-for-5 consolidation of its outstanding common stock, increasing its authorized shares to 500,000,000 shares, allowing for automatic adjustments to the number of shares issuable pursuant to the Company's 2006 Stock Option Plan and amending and restating the Company's Bylaws.

Regulatory Requirements

In light of the fact that the above described transaction with Northwest will result in a change of control in Firstgold, this proxy statement is intended to meet the notice requirements of Regulation 14f-1 of the Proxy Rules promulgated under the Securities Exchange Act of 1934 to disclose the proposed change in control of the Firstgold Board of Directors as described above.

Since the Firstgold common shares are currently listed on the Toronto Stock Exchange (TSX), certain TSX rules and regulations require that: (i) the issuance of shares by

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Firstgold to Northwest in an amount equal to 51% of the then-outstanding shares resulting in a change of control, (ii) the proposed issuance of shares representing more than 25% of the currently issued and outstanding shares at a discount to the market price in settlement of indebtedness and (iii) the issuance of share compensation to certain officers and directors of the Company, must be approved by Firstgold's stockholders and are set forth below as Proposal number 2, 3 and 10.

Due to the type of transaction involved and the nature of Northwest is a Chinese entity, Northwest has been advised that an application should be made to the Committee on Foreign Investment in the United States (CFIUS). The purpose of such application is to allow CFIUS to evaluate if any issues affecting national security are included in the proposed Restructuring. While neither Northwest nor Firstgold anticipate any objections based on national security concerns, such application process is anticipated to take approximately 45 to 60 days to complete. Northwest has determined to wait for CFIUS clearance before proceeding with the Restructuring Transaction.

Information about Northwest

Northwest Nonferrous International Investment Company Ltd. is 100% owned by the Northwest Mining and Geological Exploration Group Co. for Nonferrous Metals (NWME) and is based in Xi'an city of Shaanxi province, China. Northwest has more than 6,000 employees including 800 geologists, technologists, and engineers.

Northwest is one of the top five exploration and mining Bureaus in China amongst around 100 provincial Bureaus in terms of revenue and technical capacity. Northwest was one of the first Bureaus in China to conduct exploration projects in partnership with overseas companies. In 2007, Northwest incorporated a joint venture with Yukon Nevada Gold Corporation to carry out exploration on new acquisitions. In 2008, Northwest, in partnership with Jinduicheng Molybdenum Group Co., Ltd., acquired Yukon Zinc Corporation.

Extension of Restructuring Transaction

Due to the need to prepare and file the CFIUS application referred to above, the parties have agreed to extend the closing dates for each of the Restructuring components as originally contemplated in the Binding Offer Letter. It is now anticipated that the purchase of the Platinum/Lakewood Notes and the working capital loan will occur in October, 2009 (upon receipt of CFIUS clearance) and the subscription of shares is expected to take place on or before December 1, 2009. In recognition of this extended timetable, Platinum/Lakewood were allowed to draw down the \$500,000 deposit posted by Northwest and will be paid 1% of the outstanding Note balances per month until the purchase of the Notes by Northwest occurs. In addition, Northwest will advance or cause to be advanced to Firstgold approximately \$500,000 to meet current operating capital requirements until the Restructuring Transaction can be consummated.

Results of Operation

Our current business strategy is to invest in, explore and if warranted, conduct mining

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

operations of our current mining properties and other mineral producing properties. Firstgold is a public company that in the past has been engaged in the exploration, acquisition and development of gold-bearing properties in the continental United States. Currently, our principal assets include various mineral leases associated with the Relief Canyon Mine located near Lovelock, Nevada along with various items of mining equipment and improvements located at that site. We have also entered into (i) the staking of approximately 4,200 acres of property located in Humboldt County, Nevada; (ii) claims to explore 2,300 acres of property located near Fairview, Nevada; and (iii) mineral leases on 3,300 acres of property located near Winnemucca, Nevada.

Operating Results for the Fiscal Quarters Ended April 30, 2009 and 2008

Although we commenced efforts to re-establish our mining business early in fiscal year 2004, no mining operations have commenced and only minimal revenues from mining operations have been recognized subsequent to the quarter ended April 30, 2009 due to the fact that we were forced to suspend mining and processing activities due to the lack of funds at our primary property, the Relief Canyon mine and placed it on a care and maintenance status in April 2009. Revenue of \$88,718 was recognized for the quarter ended April 30, 2009 compared to \$275,793 of revenue recognized during the same quarter of 2008. During the first quarter of fiscal year 2010 we recognized \$38,161 from the leasing of drill rigs and crew to other nearby mining operations; and \$50,557 from performing assays for customers at our lab. During the first quarter of fiscal year 2009 we recognized revenue of \$275,793 from the leasing of drill rigs and crews to other nearby mining operations. We have granted a 4% net smelting return royalty to a third party related to the Relief Canyon mining property which has been recorded as an \$800,000 deferred revenue. Costs of services expended during the quarter ended April 30, 2009 were \$167,029 compared to \$453,522 costs of services during the same quarter ended 2008.

During the quarter ended April 30, 2009 we spent \$1,439,841 for exploration, reclamation and maintenance expenses related to our mining properties. Exploration, reclamation and maintenance expenses expended during the same quarter ended April 30, 2008 were \$1,119,403. These expenses relate primarily to exploration activities and installation of processing facilities at the Relief Canyon Mine. The increase in costs was due primarily to the initial operational expenses of operating the crushing and process plant activities which were subsequently shut down at the end of April 2009; at such time the Relief Canyon Mine was placed on a minimal care and maintenance status. During the quarter ended April 30, 2008 we expended approximately \$56,250 on preliminary exploration activities at the Horse Creek, Fairview-Hunter and Honorine Gold properties. We incurred general and administrative expenses of \$1,250,667 during the quarter ended April 30, 2009. Of this amount, \$591,149 reflects salary for administrative staff, payroll taxes and benefits, \$247,250 reflects officer and director compensation during the quarter and \$72,667 reflect fees for outside professional services. We incurred general and administrative expenses of \$1,179,528 during the quarter ended April 30, 2008. Of this amount, \$78,299 reflects promotion expense, \$228,460 reflects officer and director compensation and related payroll taxes during the quarter and \$394,378 reflect fees for outside professional services.

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Professional services incurred for the quarter ended April 30, 2009 reflects legal and accounting work pertaining to our annual and quarterly reporting on Form 10-K and Form 10-Q occurring in fiscal year 2009. A large portion of the outside professional services for the quarter ended April 30, 2008 reflected legal costs associated with the litigation involving the Crescent Red Caps LLC. It is anticipated that both mining costs and operating expenses will be significantly curtailed until we are able to secure necessary additional financing to continue our exploration program and implement our mining operations.

We incurred interest expense of \$1,549,195 during the quarter ended April 30, 2009 which compares to interest expenses of \$34,606 incurred during the same quarter of 2008. The principal balance of loans outstanding at the end of the first quarter of fiscal year 2010 increased by \$12,957,723 to \$13,908,520 compared to a principal balance of \$950,797 outstanding at the end of the first quarter of fiscal year 2009, which was primarily the result of an increase in senior secured promissory notes issued during the third quarter of fiscal year 2009. The increase in accrued interest expense during the quarter ended April 30, 2009 was primarily due to the increase in the principal balance of promissory notes outstanding during the period and the imposition of an 18% default rate of interest as of December 15, 2008.

Our total net loss for the quarter ended April 30, 2009 increased to \$4,624,858 compared to a net loss of \$2,595,314 incurred for the same quarter ended April 30, 2008. The larger net loss in the first quarter ending April 30, 2009 reflects the increase in the mine site improvement expenses as well as a substantial increase in interest expense. The increase in net loss for the quarter ended April 30, 2009 was partially offset by the net sales revenue recognized during the quarter.

Liquidity and Capital Resources

We have incurred significant operating losses since inception which has resulted in an accumulated deficit of \$50,427,136 as of April 30, 2009. At April 30, 2009, we had cash and other current assets of \$253,669 compared to \$389,553 at January 31, 2009 and a net working capital deficit of \$13,953,369. Since the resumption of our business in February 2003, we have been dependent on borrowed or invested funds in order to finance our ongoing operations. As of April 30, 2009, we had outstanding notes payable in the gross principal amount of \$13,942,721 (net balance of \$7,930,536 after \$5,013,162 of deferred financing costs and \$999,023 of original issue discount) which reflects an increase of \$12,991,924 compared to notes payable in the gross principal amount of \$950,797, (net balance of \$817,624 after \$148,480 of deferred financing costs) as of April 30, 2008.

We have posted with the United States Department of the Interior, Bureau of Land Management two letters of credit which are secured by certificates of deposit in the amount of \$2,797,346. This letter of credit covers future reclamation costs as required by the Nevada Division of Environmental Protection relating to the Relief Canyon Mine.

We are currently in default under the Senior Secured Promissory Notes and the principal and interest has been accelerated by the Noteholders and is now due and owing in the

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

amount of \$12,976,160. In April we retained the services of Haywood Securities Inc. of Vancouver, British Columbia to assist us in identifying and evaluating various financing, restructuring or strategic alternatives which may be available. On May 22, 2009 our two major lenders commenced foreclosure proceedings under their Deeds of Trust and UCC security interests. If we are unsuccessful in closing the Restructuring transaction with Northwest or in securing alternative financing if the Northwest Transaction is not completed, these lenders could commence seizing and selling virtually all of Firstgold's assets.

We will require up to \$13 million to cure the existing defaults under the Senior Secured Promissory Notes and an additional approximately \$5 million to \$10 million to resume full production at the Relief Canyon Mine and carry out planned exploration on our other properties. We do not have sufficient working capital to fund our current business plan for Relief Canyon. Consequently, our intention is to pursue several possible funding opportunities including the sale of additional securities, the sale of assets, entering into joint venture arrangements, or incurring additional debt. However, the sale of additional securities or incurring additional debt must now be approved by the holders of our Senior Secured Promissory Notes unless such notes are paid off.

Due to our continuing losses from business operations, the independent auditor's report dated January 31, 2009, includes a going concern explanation relating to the fact that Firstgold's continuation is dependent upon obtaining additional working capital either through significantly increasing revenues or through outside financing. As of January 31, 2009, Firstgold's principal commitments included its obligation to pay a minimum of \$400,000 per month on the Senior Secured Promissory Notes (which Firstgold is not currently able to pay), ongoing maintenance fees on 166 unpatented mining claims and the annual minimum rent due on the three mineral leases and mortgage payments relating to its offices and laboratory in Lovelock, Nevada.

We will need to raise additional capital to pay down our existing debt and fund the long-term or expanded development, promotion and conduct of our mineral exploration and mining operations. Due to our limited cash flow, operating losses and limited assets, it is unlikely that we could obtain financing through commercial or banking sources. Consequently, any future capital requirements will be dependent on cash infusions from our major stockholders or other outside sources in order to pay our current debts and fund our future operations. If adequate funds are not available in the near future, through public or private financing as well as borrowing from other sources, Firstgold will not be able to pay its debts and its assets could be exposed to forfeiture or bankruptcy.

Recent Financing Transactions

On August 7, 2008, Firstgold issued Senior Secured Promissory Notes in the aggregate principal amount of \$7,215,597 which resulted in net proceeds to Firstgold of \$4,989,543. On August 27, 2008, additional promissory notes in the principal amount of \$472,973 were issued resulting in net proceeds of \$350,000. On September 10, 2008, Firstgold issued additional Senior Promissory Notes in the aggregate principal amount of \$1,351,351, which resulted in net proceeds to Firstgold of \$1,000,000. On September 29,

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

2008, promissory notes in the principal amount of \$5,257,375 were issued resulting in net proceeds of \$2,460,457 to Firstgold. This brought the total principal amount of promissory notes issued to \$12,000,000. The Notes bear interest of 4% per annum payable monthly and are due and payable on March 1, 2010. In addition, commencing in December 2008, Firstgold is required to make minimum monthly principal reduction payments of \$400,000. The Notes are secured by all of the assets of Firstgold including its interests in the Relief Canyon Mine property and facilities. The proceeds of these Notes were used to repay the \$1.1 million convertible debenture and fund the final permitting, deposits and facility construction at the Relief Canyon Mine site.

Firstgold was not able to commence making the monthly installments in December, 2008 and, as a result, was in default under the Notes and a default interest rate of 18% per annum went into effect. On March 31, 2009, Firstgold entered into a Notice of Default and Forbearance Agreement with the Noteholders. However, on April 22, 2009 the two Noteholders cancelled the Forbearance Agreement and declared another default under the Note citing Firstgold's failure to pay the April 15, 2009 loan payment. On May 22, 2009, the Noteholders filed a notice of foreclosure seeking to take possession of Firstgold's assets. This foreclosure action could proceed after a 90-day cure period has elapsed.

In March 2009, Firstgold extended for 12 months an irrevocable Letter of Credit from Umpqua Bank in favor of the U.S. Department of Interior, Bureau of Land Management to an aggregate amount of U.S. \$613,500 and represents a portion of the reclamation bond for the Relief Canyon Mine. The letter of credit is secured by a certificate of deposit in the amount of \$674,850.

In March 2009 one lender loaned Firstgold \$60,000. The loan bears interest of 8%, with principal and accrued interest due in one year. Additionally the lender received a right to purchase from future gold production of Firstgold gold at \$500 per ounce for every \$200 advanced by the lender.

Off-Balance Sheet Arrangements

During the fiscal quarter ended April 30, 2009, Firstgold did not engage in any off-balance sheet arrangements as defined in Item 303(a)(4) of the SEC's Regulation S-K.

Critical Accounting Policies

The discussion and analysis of our financial conditions and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of financial statements requires management to make estimates and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. We believe that the following critical accounting policies along with those set forth in Note 3 to the financial statements, affect our more significant judgments and estimates in the preparation of our financial statements.

Valuation of long-lived assets

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of our total assets. Long-lived

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable. Recoverability of assets is measured by a comparison of the carrying value of an asset to the future net cash flows expected to be generated by those assets. The cash flow projections are based on historical experience, management's view of growth rates within the industry, and the anticipated future economic environment.

Factors we consider important that could trigger a review for impairment include the following:

- (a) significant underperformance relative to expected historical or projected future operating results,
- (b) significant changes in the manner of its use of the acquired assets or the strategy of its overall business, and
- (c) significant negative industry or economic trends.

When we determine that the carrying value of long-lived assets and related goodwill and enterprise-level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in its current business model.

Deferred Reclamation Costs

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, which established a uniform methodology for accounting for estimated reclamation and abandonment costs. The statement was adopted February 1, 2003. The reclamation costs will be allocated to expense over the life of the related assets and will be adjusted for changes resulting from the passage of time and revisions to either the timing or amount of the original present value estimate.

Prior to adoption of SFAS No. 143, estimated future reclamation costs were based principally on legal and regulatory requirements. Such costs related to active mines were accrued and charged over the expected operating lives of the mines using the units-of-production method based on proven and probable reserves. Future remediation costs for inactive mines were accrued based on management's best estimate at the end of each period of the undiscounted costs expected to be incurred at a site. Such cost estimates included, where applicable, ongoing care, maintenance and monitoring costs. Changes in estimates at inactive mines were reflected in earnings in the period an estimate was revised.

Exploration Costs

Exploration costs are expensed as incurred. All costs related to property acquisitions are

capitalized.

Mine Development Costs

Mine development costs consist of all costs associated with bringing mines into production, to develop new ore bodies and to develop mine areas substantially in advance of current production. The decision to develop a mine is based on assessment of the commercial viability of the property and the availability of financing. Once the decision to proceed to development is made, development and other expenditures relating to the project will be deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation will be charged against the property until commercial production commences. After a mine has been brought into commercial production, any additional work on that property will be expensed as incurred, except for large development programs, which will be deferred and depleted.

Reclamation Costs

Reclamation costs and related accrued liabilities, which are based on our interpretation of current environmental and regulatory requirements, are accrued and expensed, upon determination.

Based on current environmental regulations and known reclamation requirements, management has included its best estimates of these obligations in its reclamation accruals. However, it is reasonably possible that our best estimates of our ultimate reclamation liabilities could change as a result of changes in regulations or cost estimates.

Valuation of Derivative Instruments

FAS No. 133 Accounting for Derivative Instruments and Hedging Activities requires bifurcation of embedded derivative instruments and measurement of their fair value for accounting purposes. In determining the appropriate fair value, the Company uses the Black Scholes model as a valuation technique. Derivative liabilities are adjusted to reflect fair value at each period end, with any increase or decrease in the fair value being recorded in results of operations as Adjustments to Fair Value of Derivatives. In addition, the fair values of freestanding derivative instruments such as warrants are valued using Black Scholes models.

Stock-Based Compensation

We currently account for the issuance of stock options to employees using the fair market value method according to SFAS No. 123R, Share-Based Payment.

Adopted Accounting Pronouncements

See Note 3 to the Financial Statements.

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15 (e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow for timely decisions regarding required disclosure.

As required by SEC Rule 15d-15 (b) we carried out an evaluation, under the supervision and with the participation of management, including our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act 15d-14 as of the end of the fiscal quarter covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective in timely alerting them to material information relating to Firstgold that is required to be included in our periodic SEC reports and to ensure that information required to be disclosed in our periodic SEC reports is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding disclosure as a result of any deficiency detected in our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

During the quarter covered by this report, there was no change in Firstgold's internal control over financial reporting that has materially affected, or is reasonably likely to materially effect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. FACTORS AFFECTING FUTURE OPERATING RESULTS

In addition to the risk factors disclosed in the Firstgold Form 10-K for the fiscal year ended January 31, 2009, the following risks have changed or been added to the risk factors previously disclosed in the Firstgold 10-K.

We are an exploration stage company and an investment in, or ownership position in our common stock is inherently risky. Some of the risks set forth in our Form 10-K or in this Form 10-Q (together referred to as the Firstgold Risk Factors) pertain to our business in general, and others are risks which would only affect our common stock. The price of our common stock could decline and/or remain adversely affected due to any of the

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Firstgold Risk Factors and investors could lose all or part of an investment in our company as a result of any of the Firstgold Risk Factors coming to pass. Readers of this Report should, in addition to considering these risks carefully, refer to the other information contained in this Report, including disclosures in our financial statements and all related notes. If any of the events described below were to occur, our business, prospects, financial condition, or results of operations or cash flow could be materially adversely affected. When we say that something could or will have a material adverse effect on Firstgold, we mean that it could or will have one or more of these effects. We also refer readers to the information in this Report, discussing the impact of Forward-Looking Statements on the descriptions contained in this Report and included in the Factors discussed below.

As an exploration stage company with no proven mineral reserves, we may not be able to prove viable mineral reserves or achieve positive cash flows and our limited history of operations makes evaluation of our future business and prospects difficult. We reactivated our business operations in early 2003 and we have not generated any revenues, other than leasing certain of our drill rigs and crew for short periods of time, since our reactivation. As a result, we have only a limited operating history upon which to evaluate our future potential performance. Our prospects must be considered in light of the risks and difficulties encountered by companies which have not yet established their mining operations.

We will need additional funds to finance our mining and exploration activities as well as fund our current operations. Due to our lack of funds, we had to suspend operations at the Relief Canyon mine site and lay-off most of our employees. Our ability to meet our long-term obligations in the ordinary course of business is dependent upon our ability to raise additional capital through public or private equity financings, establish increasing cash flow from operations, entering into joint ventures or other arrangements with capital sources, or secure other sources of financing to fund operations. We are currently in negotiations with Northwest to provide up to \$9,500,000 in operating capital to Firstgold. However, this transaction is not expected to close until October, 2009 and may not close at all if various conditions to closing, including completion of due diligence and stockholder approvals, are not achieved in a timely manner.

We do not have sufficient funds to finance our near-term mining activities at the Relief Canyon Mine or pursue preliminary exploration activities at our other properties. We had cash reserves of \$1,598 and a working capital deficit of \$13,953,369 as of April 30, 2009. As a result, we have been forced to suspend operations at the Relief Canyon Mine and put the mine site in a care and maintenance status and cease all exploration activities. Our ability to resume operations at the Relief Canyon Mine, implement our business plan and meet our long-term obligations in the ordinary course of business is dependent upon closing the Restructuring transaction with Northwest or raising additional capital through public or private equity financings, establishing cash flows from operations, entering into joint ventures or other arrangements with capital sources, or securing other sources of financing to fund operations. Our continuing reliance on outside capital is a consequence of our negative cash flows from operations.

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

On August 7, 2008 Firstgold entered into a Note and Warrant Purchase Agreement (the "Agreement") which created a long-term debt obligation in the aggregate amount of \$12,000,000. Pursuant to the Agreement commencing on December 15, 2008 and continuing in each month thereafter, Firstgold is required to make monthly principal reduction payments equal to the greater of: i) 40% of Firstgold's free cash flow (as defined in the Agreement) in the preceding calendar month, and ii) \$400,000. Firstgold has not paid any of the principal reduction payments. Therefore, as of December 16, 2008, Firstgold was in default for non-payment of the required principal payment of \$400,000 on the Senior Secured Promissory Notes. As a result of the default, the \$12 million principal balance could be called immediately due and payable by the Lenders and the Lenders began charging a default interest rate of 18% per annum. Additionally, the loans are secured by a first priority interest in all of Firstgold's assets including its equipment, its mining rights existing at its Relief Canyon mine as well as any future mining rights Firstgold may develop in certain other properties. On June 17, 2009 these lenders filed an application to have a receiver appointed to oversee Firstgold's operations and assets. Due to the current negotiations with Northwest which, among other things, would assume the lenders' Senior Secured Promissory Notes for payment of \$11,500,000, the lenders have agreed to refrain from any further action until the Northwest transaction is consummated or terminated.

Our prior and current independent certified public accountants have expanded their opinion contained in our financial statements as of and for the years ended January 31, 1997, through January 31, 2009 to include an explanatory paragraph related to our ability to continue as a going concern, stating, in the audit report dated August 31, 2009, that the Company had an accumulated deficit of \$45,835,365 at January 31, 2009. These factors, among others, as discussed in Note 2- Going Concern to the financial statements, raise substantial doubt about the Company's ability to continue as a going concern. The auditors recognize that the cash flow uncertainty makes their basic assumptions about value uncertain. When it seems uncertain whether an asset will be used in a going concern or sold at auction, the auditors assume that the business is a going concern for purposes of all their work, and then they disclose that there is material uncertainty about that assumption. It is definitely a consequence of our negative cash flows from operations that we continually need additional cash. At any time, a serious deficiency in cash reserves could occur and it is not always possible or convenient to raise additional capital. A problem in raising capital could result in temporary or permanent insolvency and consequently potential claims by unpaid creditors and perhaps closure of the business. All of these things are possibilities. It is certain, in any case, that analysts and investors view unfavorably any report of independent auditors expressing substantial doubt about a company's ability to continue as a going concern.

As of April 30, 2009, Firstgold had approximately 143,217,235 shares of Common Stock outstanding and options and warrants to purchase a total of 35,759,228 shares of our Common Stock were outstanding as of April 30, 2009. The possibility that substantial amounts of our outstanding Common Stock may be sold by investors or the perception that such sales could occur, often called "equity overhang," could adversely affect the market price of our Common Stock and could impair our ability to raise additional capital through the sale of equity securities in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

In March 2009 one lender loaned Firstgold \$60,000. The loan bears interest of 8%, with principal and accrued interest due in one year. Additionally the lender received a right to purchase from future gold production of Firstgold gold at \$500 per ounce for every \$200 advanced by the lender.

In February 2009 warrants to purchase 2,080,000 shares of common stock were exercised at an exercise price of \$0.15 per share.

In March 2009 warrants to purchase 4,088,933 shares of common stock were exercised at an exercise price of \$0.15 per share.

In April 2009 the two senior secured lenders converted \$72,414 of accrued interest into 487,758 shares of common stock at a price of \$0.145 per share.

The issuance of the above-referenced debt instrument and exercise of warrants and conversion of accrued interest were made without any public solicitation and to a limited number of investors or related individuals or entities. Each investor represented to us that the securities were being acquired for investment purposes only and not with an intention to resell or distribute such securities. Each of the individuals or entities had access to information about our business and financial condition and was deemed capable of protecting their own interests. The debt instrument and the shares issued in exercise of warrants and conversion of interest were issued pursuant to the private placement exemption provided by Section 4(2) and/or Section 4(6) of the Securities Act of 1933 (the "Securities Act"). The note and shares issued are deemed to be "restricted securities" as defined in Rule 144 under the Securities Act and stock certificates issued upon exercise of the warrants and conversion of interest bear a legend limiting the resale thereof.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

On August 7, 2008 Firstgold entered into a Note and Warrant Purchase Agreement (the "Agreement") which created a long-term debt obligation in the aggregate amount of \$12,000,000. Pursuant to the Agreement commencing on December 15, 2008 and continuing in each month thereafter, Firstgold is required to make monthly principal reduction payments equal to the greater of: i) 40% of Firstgold's free cash flow (as defined in the Agreement) in the preceding calendar month, and ii) \$400,000. Firstgold has not paid any of the principal reduction payments. Therefore, as of December 16, 2008, Firstgold was in default for non-payment of the required principal payment of \$400,000 on the Senior Secured Promissory Notes. As a result of the default, the \$12 million principal balance could be called immediately due and payable by the Lenders and the Lenders began charging a default interest rate of 18% per annum. Additionally, the loans are secured by a first priority interest in all of Firstgold's assets including its equipment, its mining rights existing at its Relief Canyon mine as well as any future mining rights Firstgold may develop in certain other properties. On March 31, 2009 the Company entered into a Notice of Default and Forbearance Agreement with the two

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

Senior Secured Lenders pursuant to which the Company agreed to allow up to \$4,000,000 of principal and accrued interest to be convertible into shares of the Company's common stock at a conversion rate of \$0.145/share. The two Lenders received Amended and Restated Senior Secured Promissory Notes reflecting this new convertible provision. The conversion option will be available during any periods when the Company is not current in its loan payments under the Notes. Pursuant to the Notice of Default and Forbearance Agreement the Senior Secured Lenders agreed to forbear from further default proceedings until April 30, 2009. On April 22, 2009 the two Lenders, citing the Company's failure to pay the April 15, 2009 loan payment as a subsequent default event, delivered a Notice of Default and demanded the entire principal and interest be paid by April 27, 2009. On June 17, 2009 one of Firstgold Corp's two primary lenders filed a Complaint and Applications in the Second Judicial District Court in the County of Washoe, Nevada seeking, among other things, to have a receiver appointed to oversee the Company's operations and assets. On June 17, 2009 these lenders filed an application to have a receiver appointed to oversee Firstgold's operations and assets. Due to the current negotiations with Northwest which, among other things, would assume the lenders' Senior Secured Promissory Notes for payment of \$11,500,000, the lenders have agreed to refrain from any further action until the Northwest transaction is consummated or terminated.

ITEM 6. EXHIBITS

- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32. Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Edgar Filing: FIRSTGOLD CORP. - Form 10-Q

SIGNATURES

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

FIRSTGOLD CORP.

Dated: October 6, 2009

By: /s/ Terrence Lynch

Terrence Lynch, Chief Executive Officer

/s/ James Kluber

James Kluber, Principal Accounting
Officer and Chief Financial Officer

40
