

FIRSTGOLD CORP.  
Form 10-Q  
October 07, 2009

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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 July 31, 2009

Commission File Number 0-20722

**FIRSTGOLD CORP.**

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

DELAWARE

16-1400479

(State of other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1055 Cornell Avenue  
Lovelock, NV

89419

(Address of Principal Executive Offices)

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 182,447,224 were issued and outstanding as of September 30, 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

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Non-accelerated filer o

Smaller reporting company x

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRSTGOLD CORP.  
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**FIRSTGOLD CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**BALANCE SHEET**

|   | <u>July 31,<br/>2009</u>    | <u>January 31,<br/>2009</u> |
|---|-----------------------------|-----------------------------|
|   | <u>(unaudited)</u>          |                             |
| <b>ASSETS</b>   |                             |                             |
| <b>Current assets:</b>  |                             |                             |
| Cash  | \$ 81,918                   | \$ 15,666                   |
| Receivables   | 4,365                       | 81,339                      |
| Deposits  | 7,368                       | 7,368                       |
| Prepaid expense   | 77,683                      | 285,180                     |
|   | <u>171,334</u>              | <u>389,553</u>              |
| <b>Property, plant and equipment</b> , net of accumulated depreciation of \$1,531,333 and \$936,744 at July 31, and January 31, 2009, respectively  | 15,386,738                  | 16,452,452                  |
| <b>Other Assets</b>   |                             |                             |
| Restricted cash   | 2,858,704                   | 2,967,983                   |
|   | <u>2,858,704</u>            | <u>2,967,983</u>            |
| <b>Total assets</b>   | <b><u>\$ 18,416,776</u></b> | <b><u>\$ 19,809,988</u></b> |
| <b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>   |                             |                             |
| <b>Current liabilities</b>  |                             |                             |
| Accounts payable  | \$ 3,421,710                | \$ 2,543,137                |
| Accrued expenses  | 4,373,820                   | 1,716,169                   |
| Senior secured notes net of deferred financing costs of \$4,290,118 and \$5,701,291 and original issue discount of \$711,959 and \$1,275,808 at July 31, and January 31, 2009, respectively | 7,005,123                   | 5,022,901                   |
| Convertible debentures net of deferred financing costs of \$2,992 and \$32,132 at July 31, and January 31, 2009, respectively   | 447,008                     | 637,338                     |
| Notes payable   | 1,780,832                   | 1,265,675                   |
|   | <u>17,028,493</u>           | <u>11,185,220</u>           |
| <b>Total current liabilities</b>  | 17,028,493                  | 11,185,220                  |
| <b>Long-term liabilities</b>  |                             |                             |
| Accrued reclamation costs   | 2,866,989                   | 2,866,989                   |
| Deferred revenue  | 800,000                     | 800,000                     |
|   | <u>3,666,989</u>            | <u>3,666,989</u>            |
| <b>Total long-term liabilities</b>  | 3,666,989                   | 3,666,989                   |
| <b>Total liabilities</b>  | 20,695,482                  | 14,852,209                  |

**FIRSTGOLD CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**BALANCE SHEET**

|   | <b>July 31,<br/>2009</b> | <b>January 31,<br/>2009</b> |
|---|--------------------------|-----------------------------|
|   | <b>(unaudited)</b>       |                             |
| <b>Commitments and contingencies</b>  |                          |                             |
| <b>Shareholders' surplus (deficit)</b>  |                          |                             |
| Common stock, \$0.001 par value   |                          |                             |
| 250,000,000 shares authorized at July 31, and January 31, 2009, respectively 145,303,888 and 136,565,544 shares issued and outstanding at July 31, and January 31, 2009, respectively | 145,303                  | 136,566                     |
| Additional paid in capital  | 52,257,189               | 50,656,578                  |
| Deficit accumulated during the exploration stage  | (54,648,110)             | (45,835,365)                |
|   | (2,245,618)              | 4,957,779                   |
| <b>Total shareholders' surplus (deficit)</b>  | <b>\$ 18,416,776</b>     | <b>\$ 19,809,988</b>        |

**FIRSTGOLD CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**STATEMENTS OF OPERATIONS**  
**For the Six and Three Months Ended July 31, 2009 and 2008**  
**and for the Period from January 1, 1995 to July 31, 2009**

|  | For the Six Months Ended<br>July 31, |                       | For the Three Months<br>Ended<br>July 31, |                       | For the<br>Period<br>From January 1,<br>1995<br>to July<br>31, 2009 |
|--|--------------------------------------|-----------------------|---|-----------------------|---|
|  | 2009                                 | 2008                  | 2009                                      | 2008                  |   |
| <b>Services revenue</b>                                      | \$ 171,538                           | \$ 645,360            | \$ 82,819                                 | \$ 369,567            | \$ 1,569,036  |
| <b>Costs and expenses</b>                                    |                                      |                       |   |                       |   |
| Costs of services  | (273,336)                            | (1,221,718)           | (14,269)                                  | (761,891)             | (2,647,389)   |
| Exploration and maintenance costs                            | (1,673,131)                          | (2,189,006)           | (265,359)                                 | (1,239,859)           | (10,379,285)  |
| General and administrative                                   | (3,135,307)                          | (2,331,128)           | (1,884,446)                               | (984,472)             | (29,270,756)  |
| Depreciation   | (631,146)                            | (238,586)             | (300,424)                                 | (133,399)             | (1,616,705)   |
| <b>Total costs and expenses</b>                              | <b>(5,712,920)</b>                   | <b>(5,980,438)</b>    | <b>(2,464,498)</b>                        | <b>(3,119,621)</b>    | <b>(43,914,135)</b>   |
| <b>Loss from operations</b>                                  | <b>(5,541,382)</b>                   | <b>(5,335,078)</b>    | <b>(2,381,679)</b>                        | <b>(2,750,054)</b>    | <b>(42,345,099)</b>   |
| <b>Other (expense)</b>                                       |                                      |                       |   |                       |   |
| Interest income  | 45,344                               | 22,532                | 21,466                                    | 1,469                 | 380,310   |
| Dividend income  |                                      |                       |   |                       | 30,188  |
| Gain on settlement of obligations                            | (87,786)                             | 22,851                |   | 22,851                | (81,221)  |
| Other income   |                                      |                       |   |                       | 1,149,375   |
| Adjustments to fair value of derivatives                     |                                      |                       |   |                       | (1,357,903)   |
| Interest expense   | (3,253,899)                          | (155,911)             | (1,764,866)                               | (121,305)             | (10,029,273)  |
| 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            |                                      |                       | (87,786)                                  |                       | (275,713)   |
| Loss on disposal of bond                                     |                                      |                       |   |                       | (21,000)  |
| <b>Total other income (expense)</b>                          | <b>(3,296,341)</b>                   | <b>(110,528)</b>      | <b>(1,831,186)</b>                        | <b>(96,985)</b>       | <b>(11,386,196)</b>   |
| <b>Net loss</b>  | <b>\$ (8,837,723)</b>                | <b>\$ (5,445,606)</b> | <b>\$ (4,212,865)</b>                     | <b>\$ (2,847,039)</b> | <b>\$ (53,731,295)</b>  |
| <b>Basic and diluted loss per share</b>                      | <b>(\$ 0.06)</b>                     | <b>(\$ 0.06)</b>      | <b>(\$ 0.03)</b>                          | <b>(\$ 0.03)</b>      |   |
| <b>Basic and diluted weighted-average shares outstanding</b> | <b>142,764,961</b>                   | <b>94,725,487</b>     | <b>144,396,648</b>                        | <b>109,455,871</b>    |   |

**FIRSTGOLD CORP.**  
**(AN EXPLORATION STAGE COMPANY)**  
**STATEMENTS OF CASH FLOWS**  
**For the Six Months Ended July 31, 2009 and 2008**  
**and for the Period from January 1, 1995 to July 31, 2009**

|  | For the Six Months Ended July 31, |                | For the Period                              |
|--|-----------------------------------|----------------|---|
|  | 2009                              | 2008           | From January 1,<br>1995 to July<br>31, 2009 |
| <b>Cash flows from operating activities</b>                                |                                   |                |   |
| Net loss   | \$ (8,837,723)                    | \$ (7,632,537) | \$ (53,731,295)                             |
| Adjustments to reconcile net loss to net cash used in operating activities |                                   |                |   |
| Accretion of warrants issued as a debt discount                            | 914,207                           | 43,278         | 3,166,487                                   |
| Accretion of original issue discount                                       | 563,849                           |                | 1,088,041                                   |
| Accretion of debt discount   | 506,636                           | 279,438        | 614,104                                     |
| Accretion of beneficial conversion   |                                   |                | 1,173,330                                   |
| Adjustments to fair value of derivatives                                   |                                   | 703,992        | 1,357,902                                   |
| Loss from joint venture  |                                   |                | 859,522                                     |
| Loss on sale of marketable securities                                      |                                   |                | 281,063                                     |
| Depreciation and amortization  | 935,923                           | 210,572        | 2,758,045                                   |
| 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                            | 168,431        | 2,312,632                                   |
| Assigned value of stock options issue for compensation                     |                                   | 786,842        | 321,648                                     |
| Gain on write off of note payable  |                                   |                | (7,000)                                     |
| Judgment loss accrued  |                                   |                | 250,000                                     |
| (Increase) decrease in   |                                   |                |   |
| Restricted cash  | 109,279                           | (423,869)      | (2,858,704)                                 |
| Receivables  | 76,974                            | (82,074)       | 161,709                                     |
| Deposits   |                                   | (287,913)      | (2,868)                                     |
| Deferred reclamation costs   |                                   | 39,300         | 2,401,511                                   |
| Prepaid expenses   | 207,497                           | (110,298)      | (80,583)                                    |
| Reclamation bonds  |                                   |                | 185,000                                     |
| Other assets   |                                   |                | (1,600)                                     |
| Increase (decrease) in   |                                   |                |   |
| Accounts payable   | 878,573                           | 2,131,808      | 3,140,750                                   |
| Accrued expenses   | 3,248,271                         | (659,187)      | 5,520,092                                   |
| Net cash used by operating activities                                      | (1,354,514)                       | (4,832,217)    | (26,084,975)                                |
| <b>Cash flows from investing activities</b>                                |                                   |                |   |
| Proceeds from sale of marketable securities                                |                                   |                | 34,124                                      |
| Investment in marketable securities  |                                   |                | (315,188)                                   |
| Advances from shareholder  |                                   |                | 7,436                                       |
| Contribution from joint venture partner                                    |                                   |                | 775,000                                     |
| Purchase of joint venture partner interest                                 |                                   |                | (900,000)                                   |
| Capital expenditures   | (9,925)                           | (7,695,202)    | (18,265,255)                                |
| Proceeds from disposal of property, plant and equipment                    |                                   |                | 278,783                                     |
| Investments in joint ventures  |                                   |                | (490,000)                                   |



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|   |                  |                   |                  |
|---|------------------|-------------------|------------------|
| Note receivable                             |                  |                   | 268,333          |
| Repayment of note receivable                |                  |                   | (268,333)        |
|   |                  |                   |                  |
| Net cash used by investing activities       | (9,925)          | (7,695,202)       | (18,875,100)     |
|   |                  |                   |                  |
| <b>Cash flows from financing activities</b> |                  |                   |                  |
| Proceeds from the issuance of common stock  | 890,008          | 12,396,177        | 29,936,048       |
| Proceeds from notes payable                 | 620,474          | 250,685           | 19,813,988       |
| Principal repayments of notes payable       | (79,791)         | (24,517)          | (4,116,685)      |
| Repayment of advances to affiliate          |                  |                   | (231,663)        |
| Deferred revenue                            |                  | 137,650           | 799,950          |
|   |                  |                   |                  |
| Net cash provided by financing activities   | 1,430,691        | 12,759,995        | 46,201,638       |
|   |                  |                   |                  |
| Net increase (decrease) in cash             | \$ 66,252        | 232,576           | 88,605           |
| <b>Cash, beginning of year</b>              | 15,666           | 150,647           | 6,687            |
|   |                  |                   |                  |
| <b>Cash, end of year</b>                    | <b>\$ 81,918</b> | <b>\$ 383,223</b> | <b>\$ 81,918</b> |

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Supplemental cash flow information for the six months ended July 31, 2009 and 2008 and January 1, 1995 through July 31, 2009 as follows:

|   | 2009      | For the Six<br>Months Ended<br>July 31,<br>2008 | For the Period<br>From January 1,<br>1995 to July<br>31, 2009 |
|---|-----------|---|---|
| Cash paid for interest  | \$        | \$  | \$ 161,107  |
| Cash paid for income taxes  | \$        | \$  | \$  |
| <b>Non Cash Investing and Financing Activities:</b>   |           |   |   |
| 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 Six Months Ended July 31, 2009**

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**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, Firstgold has been in the exploration stage since inception and through July 31, 2009. Information for the six months ended July 31, 2009 include a net loss of \$8,837,723, negative cash flows from operations of \$1,354,514 and a deficit accumulated during the exploration stage of \$54,648,110. 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 development 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, Firstgold considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash represents a certificate 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



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

|          | <u>2009</u> | <u>2008</u> |
|----------|-------------|-------------|
| Warrants | 31,672,164  | 64,582,841  |

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**

|                                     | <u>At July 31,</u> | <u>At January 31</u> |
|-------------------------------------|--------------------|----------------------|
|                                     | <u>2009</u>        | <u>2009</u>          |
| Land                                | \$ 266,977         | \$ 266,977           |
| Buildings                           | 433,952            | 433,952              |
| Mining equipment                    | 2,499,287          | 2,922,637            |
| Crushing system                     | 2,609,183          | 2,609,183            |
| Process plant                       | 4,263,925          | 4,263,925            |
| Site costs                          | 1,542,885          | 1,535,882            |
| Lab & equipment                     | 1,165,855          | 1,162,934            |
| Other                               | 1,269,018          | 1,326,717            |
| Asset retirement costs              | 2,866,989          | 2,866,989            |
|                                     | <hr/>              | <hr/>                |
| Total property, plant and equipment | 16,918,071         | 17,389,196           |
| Less accumulated depreciation       | (1,531,333)        | (936,744)            |
|                                     | <hr/>              | <hr/>                |
| Total                               | \$ 15,386,738      | \$ 16,452,452        |
|                                     | <hr/>              | <hr/>                |

**NOTE 5 - NOTES PAYABLE**

Notes payable consist of the following at July 31, 2009:

|  |                     |
|--|---------------------|
| Equipment notes payable  | \$ 138,674          |
| The fourth bears interest at 9% and is due December 2011. The fifth note bears interest at 7.5% and is due June 2013. The loan is secured by various items of machinery and equipment.   |                     |
| Mortgage notes payable   | 313,153             |
| The first note of \$245,653 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 December 31, 2010 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 will be forgiven. The loans are secured by a building and five acres of land in Lovelock, NV. |                     |
| Short term notes payable   | 809,274             |
| In November 2008 Firstgold entered into a note payable with a six month term and bears interest at 50% per annum. In May 2009 Firstgold entered into promissory notes due in one year that bear interest at 18%.   |                     |
| Promissory note due March 2010 with interest at 8%   | 500,000             |
| Insurance premium notes payable  | 24,731              |
| The note bears interest at 9.6%, is payable monthly and is due November 2009.  |                     |
| Total notes payable  | <u>\$ 1,780,732</u> |

Firstgold recorded interest expense of \$1,764,866 and \$3,253,899 for the three months and six months ended July 31, 2009 compared to interest expense of \$121,305 and \$155,911 for the three months and six months ended July 31, 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.

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.

#### **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 July 31, 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 January 31, 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 July 31, 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.

In June 2009 a convertible note holder converted outstanding principal and accrued interest plus another short term note payable totaling \$302,564 into 2,086,653 shares of common stock at a price of \$0.145 per share.

Warrants

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

|                               | <u>Number<br/>of Shares</u> | <u>Weighted-<br/>Average<br/>Exercise<br/>Price</u> |
|-------------------------------|-----------------------------|---|
| Outstanding, January 31, 2009 | 38,421,097                  | \$ 0.53   |
| Exercised                     | (6,168,933)                 | \$ (0.15)   |
| Expired                       | (580,000)                   | \$ (0.39)   |
| Granted                       |                             | \$  |
|                               | <u>31,672,164</u>           | <u>\$ 0.61</u>                                      |
| Outstanding, July 31, 2009    | 31,672,164                  | \$ 0.61   |
|                               | <u>31,672,164</u>           | <u>\$ 0.61</u>                                      |
| Exercisable, July 31, 2009    | 31,672,164                  | \$ 0.61   |
|                               | <u>31,672,164</u>           | <u>\$ 0.61</u>                                      |

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.

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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 \$59,311 for the three months ended April 30, 2008, and was recorded in the financial statements as operating expense.

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.

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

|                                    | # of Shares | Weighted<br>Ave.<br>Exercise<br>Price | Aggre-<br>gate<br>Intrinsic<br>Value |
|------------------------------------|-------------|---------------------------------------|--------------------------------------|
| Outstanding as of January 31, 2009 | 5,793,999   | \$ 0.61                               | \$ 0                                 |
| Granted                            | 0           | \$ 0.00                               |                                      |
| Exercised                          | 0           | \$ 0.00                               |                                      |
| Cancelled                          | (1,756,935) | \$ 0.00                               |                                      |
| Outstanding as of July 31, 2009    | 4,037,064   | \$ 0.58                               | \$ 0                                 |
| Exercisable as of July 31, 2009    | 3,643,532   | \$ 0.58                               | \$ 0                                 |

**NOTE 9 SUBSEQUENT EVENTS**

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 of Operations**

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

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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.

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

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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 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

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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 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

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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 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,

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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 July 31, 2009 and 2008

Although we commenced efforts to re-establish our mining business early in fiscal year 2004, only minor mining operations were commenced earlier in the year and only minimal revenues from mining operations have been recognized during the quarter ended July 31, 2009 due to the fact that we were forced to suspend mining and process activities due to the lack of funds at our primary property, the Relief Canyon mine, and placed it on a care and maintenance status as of April 2009. Revenue of \$82,819 was recognized for the quarter ended July 31, 2009 compared to \$369,567 of revenue recognized during the same quarter of 2008. During the second quarter of fiscal year 2010 we recognized revenue from the refining of gold and performing assays for customers at our lab. During the second quarter of fiscal year 2009 we recognized revenue from the leasing of drill rigs and crews to other nearby mining operations. Costs of services expended during the quarter ended July 31, 2009 were \$14,269 compared to \$761,891 costs of services during the same quarter ended 2008. 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 option income.

During the quarter ended July 31, 2009 we spent \$265,359 for exploration, reclamation and maintenance expenses related to our mining properties. Reclamation and maintenance expenses expended during the same quarter ended July 31, 2008 were \$1,239,859. These expenses relate primarily to exploration activities and installation of processing facilities at the Relief Canyon Mine. During the quarter ended July 31, 2008 we expended approximately \$78,099 on preliminary exploration activities at the Horse Creek, Fairview-Hunter and Honorine Gold properties. The decrease in costs was due primarily to the lack of capital during the quarter to fully fund necessary operational expenses and reducing the mine operations to a minimal care and maintenance status. We incurred general and administrative expenses of \$1,884,446 during the quarter ended July 31, 2009. Of this amount, \$219,497 reflects salary for administrative staff, payroll taxes and benefits, \$1,375,852 reflects officer and director compensation during the quarter and \$150,378 reflect fees for outside professional services. A large portion of the increase in officer and director compensation reflects severance arrangements negotiated with the former Chief Executive Officer and Chief Operating Officer of Firstgold and the increase in board of Director meetings due to the proposed restructuring transactions referred to above. We incurred general and administrative expenses of \$984,472 during the quarter ended July 31, 2008. Of this amount, \$35,206 reflects promotion expense; \$135,433 reflects officer and director compensation and related payroll taxes during the quarter and \$286,085 reflect fees for outside professional services.

Professional services incurred for the quarter ended July 31, 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 2010 and work relating to the Restructuring

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transaction. 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 \$1,764,866 during the quarter ended July 31, 2009 which compares to interest expenses of \$121,305 incurred during the same quarter of 2008. The principal balance of loans outstanding at the end of the second quarter of fiscal year 2010 increased by \$12,167,087 to \$14,238,032 compared to a principal balance of \$2,070,945 outstanding at the end of the second 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 2009. The increase in accrued interest expense during the quarter ended July 31, 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 July 31, 2009 increased to \$4,212,865 compared to a net loss of \$2,847,039 incurred for the same quarter ended July 31, 2008. The larger net loss in the quarter ending July 31, 2009 reflects the increase in the general and administrative expense as well as a substantial increase in interest expense. The increase in net loss for the quarter ended July 31, 2009 was partially offset by the lower costs of services and exploration and maintenance costs during the quarter and a small amount of revenue.

### Operating results for the Six Months Ended July 31, 2009 and 2008

During the six months ended July 31, 2009 we recognized revenue of \$171,538 from the initial mineral recovery of gold and silver and from performing assays for customers at our lab. During the six months ended July 31, 2008 we recognized revenue of \$645,360 from the leasing of drill rigs and crew to other nearby mining operations. Costs of services expended during the six months ended July 31, 2009 were \$273,336 compared to \$1,221,718 costs of services during the same six month period ended 2008. 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 option income.

During the six months ended July 31, 2009, we spent \$1,673,131 on exploration, reclamation and maintenance expenses related to our mining properties. Exploration, reclamation and maintenance expenses expended during the six months ended July 31, 2008, were \$2,189,006. The decrease in costs was due primarily to the lack of capital during the quarter to fully fund necessary operational expenses and reducing the mine operations to a minimal care and maintenance status. We incurred general and administrative expenses of \$3,135,307 during the six months ended July 31, 2009. Of this amount, \$569,409 reflects salary for administrative staff, payroll taxes and benefits, \$1,623,102 reflects officer and director compensation during the quarter and \$223,045 reflect fees for outside professional services. A large portion of the increase in officer and director compensation reflects severance arrangements negotiated with the former Chief Executive Officer and Chief Operating Officer of Firstgold and the increase in



board of Director meetings due to the proposed restructuring transactions referred to above. A large portion of the outside professional services reflects legal and accounting work pertaining to our annual and quarterly reporting on Form 10-K and Form 10-Q, legal costs associated with the litigation involving the Crescent Red Caps LLC and the Restructuring transaction. During the six months ended July 31, 2008, we incurred general and administrative expenses of \$2,331,128, of which \$113,505 reflects promotional expenses; \$363,893 represented officer and director compensation, and \$1,253,900 reflected fees for outside professional services. It is anticipated that both mining costs and operation costs will be significantly lower as we continue to operate on a significantly reduced basis pending the consummation of the Restructuring transaction.

We incurred interest expense of \$3,253,899 during the six months ended July 31, 2009, which compares to interest expenses of \$155,911 incurred during the same six months of 2008. The principal balance of loans outstanding at the end of the second quarter of fiscal year 2010 increased by \$12,167,087 to \$14,238,032 compared to a principal balance of \$2,070,945 outstanding at the end of the second 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 2009 and other short term bridge notes. The increase in additional interest expense during the six months ended July 31, 2009, was primarily due to the increase in outstanding debt and the imposition of an 18% default rate on our senior promissory notes.

Our total net loss of the six months ended July 31, 2009, increased to \$8,837,723 compared to a net loss of \$5,445,606 incurred for the same six months ended July 31, 2008. The increased net loss was due primarily to a reduction in service revenue and a sharp increase in interest expenses during the first six months of fiscal 2010.

### **Liquidity and Capital Resources**

We have incurred significant operating losses since inception which has resulted in an accumulated deficit of \$54,648,110 as of July 31, 2009. At July 31, 2009, we had cash and other current assets of \$171,334 compared to \$389,553 at January 31, 2009 and a net working capital deficit of \$16,824,071. 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 July 31, 2009, we had outstanding notes payable in the gross principal amount of \$13,788,032 (net balance of \$8,782,963 after \$4,293,110 of deferred financing costs and \$711,959 of original issue discount) which reflects an increase of \$11,638,124 compared to notes payable in the gross principal amount of \$2,149,908, (net balance of \$1,984,341 after \$165,567 of deferred financing costs) as of July 31, 2008.

We have posted with the United States Department of the Interior, Bureau of Land Management a letter of credit which is secured by a certificate of deposit in the amount of \$613,500. Additionally, we have posted with the United States Department of the Interior, Bureau of Land Management a cash bond deposit in the amount of \$2,183,846. The letter of credit and the cash bond deposit cover future reclamation costs as required by the Nevada Division of Environmental Protection relating to the Relief Canyon Mine.

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In April, 2009 Firstgold's two primary lenders declared defaults under their respective Senior Secured Promissory Notes aggregating \$13,528,160 of principal and interest as of July 31, 2009. On May 22, 2009 the 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. In light of the pending Restructuring transaction, as of September 15, 2009 the lenders had agreed to refrain from taking further action against Firstgold on a month-to-month basis for the payment of \$110,000 per month in order to allow Firstgold to complete its Restructuring transaction. In the interim, until new financing can be secured we have been forced to suspend any additional processing activity at the plant and will maintain the Relief Canyon Mine property on a care and maintenance basis until such time as full operations can be restored.

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 bring the Relief Canyon Mine into full production 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. We are currently pursuing the Restructuring transaction with Northwest which, if completed, would provide for the purchase of the Senior Secured Promissory Notes and provide us with critical working capital to resume operations at the Relief Canyon mine. However, the sale of additional securities or incurring additional debt must now be approved by the holders of our Senior Secured Promissory Notes until such notes are paid off.

Due to our continuing losses from business operations, the independent auditor's report dated August 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

In May 2009 three lenders loaned Firstgold \$300,703 represented by 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 1,503 ounces of gold from future production.

In May 2009 four directors and officers plus three employees converted \$252,571 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 \$320,000 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 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.

Off-Balance Sheet Arrangements

During the fiscal quarter ended July 31, 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 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.

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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 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

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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 \$81,918 and a working capital deficit of \$16,824,071 as of July 31, 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.

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. Commencing September 1, 2009, Firstgold is required to pay a monthly extension fee of \$110,000. The September extension fee was paid on September 15, 2009.

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.

Our current independent certified public accountants have expanded their opinion contained in our financial statements as of and for the years ended January 31, 2008,



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 July 31, 2009, Firstgold had approximately 145,303,888 shares of Common Stock outstanding and options and warrants to purchase a total of 35,709,228 shares of our Common Stock were outstanding as of July 31, 2009. In addition, 103,451,842 shares are planned to be issued in exchange for cancellation of debt and outstanding warrants. 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 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 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.

The issuance of the above-referenced debt instruments and conversion of debt for equity were made without any public solicitation and to a limited number of investors, including officers and directors 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 instruments and the shares issued in conversion of debt 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 notes and shares issued are deemed to be "restricted securities" as defined in Rule 144 under the Securities Act and stock certificates issued upon conversion of debt 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 Firstgold entered into a Notice of Default and Forbearance Agreement whereby the Lenders agreed to forbear from further default proceedings until April 30, 2009. However, on April 22, 2009 the secured lenders terminated the Forbearance Agreement and declared defaults under their respective Senior Secured Notes. 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.

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.

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In June, 2009, Firstgold vacated its offices in Cameron Park, California. The Amended Office Building Lease requires a monthly rent of \$9,526 and expires on January 31, 2011. As of July 31, 2009 Firstgold owed back rent, late fees and interest aggregating \$51,072. Firstgold is currently negotiating a settlement of this lease obligation and the landlord is attempting to re-lease the premises.

### ITEM 5. OTHER INFORMATION

On June 17, 2009 the common shares of Firstgold ceased to be listed on the OTC Bulletin Board system but continue to be quoted and traded in the over-the-counter market in the US.

Subsequent to the end of the quarter, the Investment Industry Regulatory Organization of Canada ( IIROC ) issued a trading halt for the common stock of Firstgold listed on the Toronto Stock Exchange ( TSX ). It is anticipated that upon the filing of the Firstgold Form 10-Q s for the third and 2<sup>nd</sup> fiscal quarters which will bring Firstgold current in its filing requirements under the 1934 Act, the IIROC will allow Firstgold common shares to resume trading on the TSX.

### 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

#### 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

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Terrence Lynch, Chief Executive Officer

/s/ James Kluber

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James Kluber, Principal Accounting Officer and Chief Financial Officer