

Tornado Gold International Corp  
Form 10QSB  
August 20, 2007

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended **June 30, 2007**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

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

Commission file number **000-50146**

**TORNADO GOLD INTERNATIONAL CORPORATION**

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

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**94-3409645**

(IRS Employer Identification No.)

**8600 Technology Way, Suite 118, Reno, Nevada 89521**

(Address of principal executive offices)

**(775) 852-3770**

(Issuer's telephone number)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant 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 in Rule 12b-2 of the Exchange Act).  
(Check one): Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

Edgar Filing: Tornado Gold International Corp - Form 10QSB

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

**30,111,526 common shares issued and outstanding as of August 1, 2007**

Transitional Small Business Disclosure Format (Check one): Yes [  ] No [X]

---

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

These financial statements have been prepared by Tornado Gold International Corporation (the **Company**) without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (**SEC**). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with such SEC rules and regulations. In the opinion of management, the accompanying statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2007, and its results of operations, stockholders' equity, and its cash flows for the six month period ended June 30, 2007 and for the period from inception (March 19, 2004) to June 30, 2007. The results for these interim periods are not necessarily indicative of the results for the entire year. The accompanying financial statements should be read in conjunction with the financial statements and the notes thereto filed as a part of the Company's annual report on Form 10-KSB filed on April 17, 2007.

---

**Tornado Gold International Corp.**  
**(An Exploratory Stage Company)**  
**BALANCE SHEET**

	<b>June 30, 2007</b> (Unaudited)
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 3,764
Prepaid Expenses	41,280
<b>TOTAL CURRENT ASSETS</b>	<b>45,044</b>
<b>PROPERTY AND EQUIPMENT,</b>	
Mining claims	1,862,148
Computer equipment, net	2,657
<b>OTHER ASSETS</b>	
Deferred offering costs	2,500
Intangible assets	5,723
<b>TOTAL ASSETS</b>	<b>\$ 1,918,072</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable - related party	\$ 39,478
Accounts payable - others	107,960
Accrued expense	178,205
Loan Payable - related party	330,000
Notes payable (including accrued interest of \$136,890)	1,217,706
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,873,349</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>
<b>STOCKHOLDERS' DEFICIT</b>	
Common stock; \$0.001 par value; 100,000,000 shares authorized; 30,111,526 shares issued and outstanding	30,112
Additional paid in capital	1,978,707
Accumulated deficit	(704,993)
Deficit accumulated during the exploratory stage	(2,758,684)
Subscribed warrants	1,500,000
Stock subscription receivable	(419)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>44,723</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,918,072</b>

The accompanying notes are an integral part of these financial statements



**Tornado Gold International Corp.**  
**(An Exploratory Stage Company)**  
**STATEMENTS OF OPERATIONS**

	For the Three months ended June 30		For the Six Months ended June 30		From March 19, 2004 through June 30, 2007
	2007	2006	2007	2006	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
NET REVENUE	\$ -	\$ -	\$ -	\$ -	-
<b>OPERATING EXPENSES</b>					
Compensation expense on option grants	-	-	-	-	68,765
Mining exploration expenses	40,761	41,307	119,958	81,267	1,281,176
General and administrative expenses	67,696	125,508	193,454	209,318	1,012,537
	108,457	166,815	313,412	290,585	2,362,478
LOSS FROM OPERATIONS	(108,457)	(166,815)	(313,412)	(290,585)	(2,362,478)
<b>OTHER INCOME (EXPENSE)</b>					
Accrued potential damages on breach of contract	--	--	(178,205)	--	(178,205)
Interest expense	(21,261)	(21,557)	(42,877)	(37,738)	(218,001)
TOTAL OTHER INCOME (EXPENSE)	(21,261)	(21,557)	(221,082)	(37,738)	(396,206)
LOSS BEFORE PROVISION FOR INCOME TAXES	(129,718)	(188,372)	(534,494)	(328,323)	(2,758,684)
PROVISION FOR INCOME TAXES	-	-	-	-	-
NET LOSS	\$ (129,718)	\$ (188,372)	(534,494)	(328,323)	(2,758,684)
NET LOSS PER SHARE - BASIC AND DILUTED	\$ (0.00)	\$ (0.01)	(0.02)	(0.01)	
<b>WEIGHTED AVERAGE COMMON EQUIVALENT</b>					
SHARES OUTSTANDING - BASIC AND DILUTED	30,111,526	28,798,266	30,111,526	28,795,014	

The accompanying notes are an integral part of these financial statements



**Tornado Gold International Corp.**  
**(An Exploratory Stage Company)**  
**STATEMENTS OF CASH FLOWS**

	<b>For the Six Months ended June 30,</b>		<b>From March 19, 2004 through June 30, 2006</b>
	<b>2007</b>	<b>2006</b>	
	(Unaudited)	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss from continuing operations	\$ (534,494)	\$ (328,323)	\$ (2,,758,684)
Adjustment to reconcile net loss to net cash used in operating activities:			
Value of options and warrants granted for services	-	-	68,765
Amortization	1,145	-	1,145
Depreciation	554	-	665
Changes in:			
Prepaid expenses and other current assets	(43,780)	(17)	(38,780)
Accounts payable	67,131	61,570	222,540
Accrued expenses	178,205	-	178,205
Notes payable	42,877	-	136,890
Net cash used in operating activities	(288,362)	(266,770)	(2,189,254)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of mining claims	(180,000)	(441,265)	(1,795,598)
Purchase of equipment	(1,980)	-	(3,323)
Website design costs	-	-	(6,868)
Net cash used in investing activities	(181,980)	(441,265)	(1,805,789)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from loan payable	330,000	649,838	2,435,816
Proceeds from issuance of common stock	-	3,720	856,802
Proceeds from subscribed warrants	-	-	1,500,000
Payment on note payable	-	-	(42,500)
Repurchase of shares on common stock	-	-	(577,906)
Offering costs	-	-	(173,405)
Net cash provided by financing activities	330,000	653,558	3,998,807
<b>NET CASH PROVIDED BY CONTINUING OPERATIONS</b>	<b>(140,342)</b>	<b>(54,477)</b>	<b>3,764</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b>144,106</b>	<b>64,333</b>	<b>-</b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$ 3,764</b>	<b>\$ 9,856</b>	<b>\$ 3,764</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**



Edgar Filing: Tornado Gold International Corp - Form 10QSB

Interest paid	\$	-	\$	-
Income taxes paid	\$	-	\$	-

The accompanying notes are an integral part of these financial statements

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

**Organization**

Tornado Gold International Corp. (formerly Nucotec, Inc.) was incorporated in the state of Nevada on October 8, 2001. On July 7, 2004, the name of the company was officially changed to Tornado Gold International Corp. (the "Company"). The Company is currently in the exploratory stage as defined in Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 7 and has been March 19, 2004, when it changed its principal activity to the exploration of mining properties for future commercial development and production (See Note 3). On February 14, 2007, the Company changed its domicile from Nevada to Delaware.

**Basis of Presentation**

The accompanying interim financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ) for interim financial reporting. These interim financial statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the balance sheet, operating results and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Operating results for the six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or for any other interim period during such year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Company's Form 10-KSB for the year ended December 31, 2006.

**Going Concern**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has no established source of material revenue, has incurred a net loss for the six months ended June 30, 2007 of \$534,494, as of June 30, 2007 had a negative working capital of \$1,828,305, and had an accumulated deficit since its inception of \$3,463,677. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management recognizes that the Company must generate additional resources to enable it to continue operations. Management intends to raise additional funds through debt and/or equity financing or through other means that it deems necessary. However, no assurance can be given that the Company will be successful in raising additional capital. Further, even if the company raises additional capital, there can be no assurance that the Company will achieve profitability or positive cash flow. If management is unable to raise additional capital and expected significant revenues do not result in positive cash flow, the Company will not be able to meet its obligations and may have to cease operations.

**Stock Split**

Edgar Filing: Tornado Gold International Corp - Form 10QSB

On April 19, 2004, the Company authorized a 50-for-1 stock split. On August 18, 2004, the Company authorized a 6.82 -for-1 stock split. On May 16, 2005, the Company authorized a 1.20 -for-1 stock split. All references in the

accompanying financial statements to the number of shares outstanding and per-share amounts have been restated to reflect the various indicated stock splits.

## **NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Stock Based Compensation**

The Company accounts for stock-based compensation under SFAS No. 123R, "Share-based Payment" and SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--An amendment to SFAS No. 123. These standards define a fair value based method of accounting for stock-based compensation. In accordance with SFAS Nos. 123R and 148, the cost of stock-based employee compensation is measured at the grant date based on the value of the award and is recognized over the vesting period. The value of the stock-based award is determined using the Black-Scholes option-pricing model, whereby compensation cost is the excess of the fair value of the award as determined by the pricing model at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period. During 2006, the Company recognized no compensation expense under SFAS No. 123R as no options were issued to employees during these two periods (See Note 6).

As of April 15, 2005, the Company adopted its 2005 stock option plan to compensate its directors. As of June 30, 2007, no options have been granted to the directors.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

### **Fair Value of Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts payable, accrued expenses and notes payable. Pursuant to SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, the Company is required to estimate the fair value of all financial instruments at the balance sheet date. The Company considers the carrying values of its financial instruments in the financial statements to approximate their fair values.

### **Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less, plus all certificates of deposit.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method and with useful lives used in computing depreciation of 3 years. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Expenditures for maintenance and repairs are charged to operations as incurred; additions, renewals and betterments are capitalized.

### **Long-Lived Assets**

The Company accounts for its long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that long-lived assets be reviewed for impairment

whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of an asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value or disposable value. As of June 30, 2007, the Company did not deem any of its long-term assets to be impaired.

### **Concentration of Credit Risk**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash. The Company places its cash with high quality financial institutions and at times may exceed the FDIC \$100,000 insurance limit. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required.

### **Revenue Recognition**

The Company has not generated any revenue from its mining operations.

### **Mining Costs**

Costs incurred to purchase, lease or otherwise acquire property are capitalized when incurred. General exploration costs and costs to maintain rights and leases are expensed as incurred. Management periodically reviews the recoverability of the capitalized mineral properties and mining equipment. Management takes into consideration various information including, but not limited to, historical production records taken from previous mining operations, results of exploration activities conducted to date, estimated future prices and reports and opinions of outside consultants. A provision is made for any expected loss on a project or property when it is determined that the project or property will be abandoned or its carrying value has been impaired.

### **Website Development Costs**

Under FASB Emerging Issues Task Force Statement 00-2, Accounting for Web Site Development Costs ("EITF 00-2"), costs and expenses incurred during the planning and operating stages of the Company's web site development are expensed as incurred. Under EITF 00-2, costs incurred in the web site application and infrastructure development stages are capitalized by the Company and amortized to expense over the web site's estimated useful life or period of benefit. As of June 30, 2007, the Company had net capitalized costs of \$5,723 related to its web site development, which are being depreciated on a straight-line basis over an estimated useful life of 3 years. Amortization expense for the six months ended June 30, 2007 and 2006 amounted to \$1,145 and \$0, respectively.

A schedule of amortization expense for the three years ending June 30, 2010 is as follows:

June 30, 2008	\$	2,289
June 30, 2009		2,289
June 30, 2010		1,145
	\$	5,723

### **Income Taxes**

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax

assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

## **Loss Per Share**

The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (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. Diluted earnings (loss) per share has not been presented since the effect of the assumed conversion of options to purchase common shares would have an anti-dilutive effect. The only potential common shares as of June 30, 2007 were 160,200 options, 11,795,000 warrants, and \$649,838 of debt convertible into 1,477,283 shares of the Company's common stock that have been excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive. The only potential common shares as of June 30, 2006 were 210,000 options and 650,000 warrants that have been excluded from the computation of diluted net loss per share because the effect would have been anti-dilutive. If such shares were included in diluted EPS, they would have resulted in weighted-average common shares of 44,518,766 and 29,626,725 for the three months and six-months ended June 30, 2007 and 2006, respectively

## **Recent Accounting Pronouncements**

**SFAS No. 157** - In September 2006, the FASB issued Statement 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company has evaluated the impact of the adoption of SFAS 157, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

**SFAS No. 158** - In September 2006, the FASB issued Statement No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. The Company has evaluated the impact of the adoption of SFAS 158, and does not believe the impact will be significant to the Company's overall results of operations or financial position.

**SAB No. 108** In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 (SAB No. 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. The guidance in SAB No. 108 requires Companies to base their materiality evaluations on all relevant quantitative and qualitative factors. This involves quantifying the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial



statements. The Company has adopted this standard.

SFAS No. 159 - In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve

financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement applies to all entities, including not-for-profit organizations. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. Some requirements apply differently to entities that do not report net income. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, *Fair Value Measurements*. No entity is permitted to apply this Statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption. This Statement permits application to eligible items existing at the effective date (or early adoption date). The Company has evaluated the impact of the implementation of SFAS No. 159 and does not believe the impact will be significant to the Company's overall results of operations or financial position.

### NOTE 3 COMPUTER EQUIPMENT

A summary of computer equipment at June 30, 2007 is as follows:

Computer equipment	\$	3,323
Accumulated depreciation		(666)
	\$	2,657

Depreciation expense for the six months ended June 30, 2007 and 2006 amounted to \$666 and \$0, respectively.

### NOTE 4 - MINING CLAIMS

#### NT Green Property, HMD Gold Property, Goodwin Hill Gold Property, and Wilson Peak Property

On May 31, 2004, the Company entered into four agreements with a company wholly owned by Mr. Carl Pescio ("Pescio"), a Director of the Company, to lease four mining properties. The terms of the four leases are substantially identical and are as follows.

A schedule of the advanced lease payments for each of the four properties is as follows:

Due Date	Amount
-----	-----
June 5, 2004	\$ 15,000
May 15, 2005	\$ 22,500
February 5, 2006	\$ 30,000
February 5, 2007	\$ 37,500
February 5, 2008	\$ 50,000
February 5, 2009	\$ 62,500
February 5, 2010	\$ 75,000
February 5, 2011 and each year thereafter until production commences	\$ 100,000



## Edgar Filing: Tornado Gold International Corp - Form 10QSB

Upon completion of a bankable feasibility study and payments totaling \$105,000, the Company will own 100% of the property subject to a continuing production royalty of 4%. Once the \$105,000 is paid, all subsequent payments will convert into advance minimum royalty payments that are credited against the 4% production royalty due. A 1% royalty is also due Pescio on production on property consisting of a 2 mile circumference surrounding the leased property.

The Company will pay additional land acquisition and filling fees on the property. The Company is committed to drill 5,000 feet on the property in each year commencing on or before September 1, 2006 and continuing until the completion of the feasibility study. Drilling on the subject properties has commenced. Excess footage drilled in any year will be carried forward to subsequent years. The Company has the option to pay Pescio \$10 per foot committed to and not drilled.

Prior to the completion of the feasibility study, the Company has the right to purchase 2% of the 4% production royalty for \$1,500,000 for each percentage point. The Company also has the option to purchase 50% of the 1% royalty for \$500,000.

The Company shall be responsible for all environmental liabilities and reclamation costs it creates and indemnifies Pescio against any such claims or obligations. The Company can terminate the lease at any time by giving 30 days notice provided that there are no outstanding environmental or reclamation liabilities and that all lease and production royalty payments are current.

### **Jack Creek Property**

On October 3, 2005, the Company paid the Bureau of Land Management \$30,875 as consideration on the Exploration License and Option to Lease Agreement entered into between the Company and Mr. Earl Abbott, and Stanley Keith ("the owners"), to explore 247 claims (nearly 5,000 acres) known as the Jack Creek Property. Mr. Abbott is the Company's President and Mr. Keith was a Company Director through 2006.

The Company entered into a definitive Exploration License and Option to Lease Agreement for the above claims for a period of twenty years. Under this agreement, the Company is responsible to make minimum lease payments to the owners as follows:

Due Date	Amount
-----	-----
Upon signing	\$ 22,500
1st anniversary	\$ 30,000
2nd anniversary	\$ 37,500
3rd anniversary	\$ 50,000
4th anniversary	\$ 62,500
5th anniversary and each anniversary thereafter	\$ 100,000

If any payments due by the Company to the owners are not paid within 30 days of its due date, interest will begin to accrue on the late payment at a rate of 2% over the prime rate established by the Department of Business and Industry of the State of Nevada.

Upon completion of a bankable feasibility study and payments totaling \$140,000, all subsequent payments will convert into advance minimum royalty payments that are credited against the 4% production royalty due.

The Company shall have the option to purchase one-half (1/2) of the royalty applicable to the property representing two percent (2%) of the Net Smelter Returns. The Company shall have the right to elect to purchase such part of the royalty in increments representing one percent (1%) of the Net Smelter Returns and the purchase price for each such



increment shall be \$1,500,000. The Company shall have the option to purchase one-half (1/2) of the area-of-interest royalty applicable to mineral rights, mining claims and properties which the Company acquires from third parties representing one-half percent (.5%) of the Net Smelter Returns. The purchase price for such part of the area-of-interest royalty shall be \$500,000 for the one-half percent (.5%) of the area-of-interest royalty applicable to mineral rights, mining claims and properties which the Company acquires from any third party.

The Company shall be responsible for all environmental liabilities and reclamation costs it creates and indemnifies the owners against any such claims or obligations. The Company can terminate the lease at any time by giving 30 days notice provided that there are no outstanding environmental or reclamation liabilities and that all lease and production royalty payments are current.

In addition, on August 7, 2006, the Company acquired an option for 53 additional claims (approx 1,000 acres) at the Jack Creek Property. The option was acquired from Gateway Gold (USA) Corp. through two of the Company's directors, Earl Abbott and Stanley Keith, and is subject to the Area of Interest clause in the original Jack Creek agreement between the Company and those directors that the Company announced in its October 3, 2005, news release. The Company has the option to earn a 50% undivided interest in the 53 claims through its expenditure on the claims of a total of \$500,000 in various stages by March 1, 2007, 2008, and 2009. Thereafter, the Company and Gateway Gold could form a joint venture; but, if Gateway declines to participate at its 50% level, the Company could exercise its option to earn an additional 20% in the claims through its expenditure on the claims of an additional \$500,000 in two equal stages on or before March 1, 2010, and 2011. Mr. Abbott is also an officer of the Company.

#### **Additional Properties**

On October 6, 2005, the Company entered into a preliminary agreement with Mr. Carl Pescio, a Director of the Company, to lease 10 mineral properties (about 1,300 claims) in Nevada. Under the term of the preliminary agreement, the Company is to make advance lease payments to Mr. Pescio on each property based upon the following schedule:

Due Date	Amount
-----	-----
Upon signing	\$ 35,000
1st anniversary	\$ 55,000
2nd anniversary	\$ 75,000
3rd anniversary	\$ 100,000
4th anniversary	\$ 125,000
5th anniversary	\$ 150,000
6th anniversary and each anniversary thereafter	\$ 200,000

On August 23, 2006, the Company entered into an agreement to acquire the Illipah gold prospect consisting of 191 unpatented mining claims located in White Pine County, Nevada in consideration for \$100,000 and 300,000 shares of its common stock. Under the terms of the purchase agreement, \$50,000 was paid and 50,000 shares of the Company's common stock were issued upon signing with an additional \$50,000 paid and 100,000 shares of restricted common stock issued on November 21, 2006. An additional 200,000 shares of restricted common stock is to be issued on or before August 23, 2007. Further, the Company assumed the seller's obligations in an underlying exploration and mining lease agreement on the claims, and granted to the seller a production royalty of two percent of net smelter returns on all rents and mineral production from the property. The Company also agreed to pay \$48,007 to the United States Department of the Interior Bureau of Land Management for mining claim maintenance fees, and be responsible for future annual maintenance and filing fees on the acquired claims and any advanced minimum royalty payments due to Carl Pescio, a Company director, and Janet Pescio under an August 31, 2001, agreement between the Pescios and the seller. The Company agreed to register all of such shares for re-sale within



## Edgar Filing: Tornado Gold International Corp - Form 10QSB

60 days of the closing date but not later than 150 days after August 23, 2006. The Company also agreed to use its best efforts to cause the registration of the shares to be declared effective as soon as practicable thereafter, but within 120 days after the closing date and no later than 210 days after August 23, 2006.

The Company has the option, exercisable at any time prior to commercial production on any of the Illipah claims, to reduce production royalties due Seller from two percent to one percent by paying it \$1,000,000 or its equivalent in gold bullion priced as of the August 24, 2006 closing price of gold on the New York Commodity Exchange. The Company also agreed to undertake an exploration program on the Illipah property and related area of interest, and incur exploration and development expenditures of at least \$750,000 within two years, of which \$250,000 is to be expended during the first year of the agreement.

Based upon the actual and preliminary terms of the above leases, the Company's obligation as of June 30, 2007 for the payment of minimum lease payments on these 16 properties is as follows:

2007	\$ 751,235
2008	\$ 1,237,500
2009	\$ 1,550,000
2010	\$ 1,862,500
Minimum lease payments in Subsequent years	\$ 2,500,000

A description of the mining properties leased by the Company is as follows:

NT Green Property is located in central Lander County, Nevada about 40 miles southwest of the town of Battle Mountain. The property is within the Battle Mountain/Eureka (Cortez) Trend at the northern end of the Toiyabe Range.

HMD Gold Property is located in Eureka County, Nevada along the west side of the Cortez Range, about 30 miles southwest of the town of Carlin, and about 10 miles north of the Buckhorn deposit. Access to the property is gained by driving 41 miles west of Elko on I-80, then 20 miles south on SH-306 to the town of Crescent Valley. A well-maintained gravel road leads east-southeast past the Hot Springs Point to the vicinity of the Dean Ranch. A two-track road leads to the southeast and the property position is reached in about one-half mile.

Goodwin Hill Gold Property is located in east central Lander County, Nevada about 60 miles south of the town of Battle Mountain and about 25 miles northeast of the town of Austin. It is positioned in grass Valley between the Simpson Park Range to the east and the Toiyabe Range to the west.

Wilson Peak property is located in Elko County, Nevada about 70 miles north of the town of Elko and about 20 miles north of the town of Tuscarora. The property area is west of the Independence Gold Trend and is part of a north-south line of gold-silver occurrences in Tertiary volcanic rocks.

Jack Creek Property is located in the northern Independence Range about 50 miles north of Elko, Elko County, Nevada. It is comprised of 247 lode mining claims (nearly 5,000 acres) adjacent to Gateway Gold Corp.'s (TSX Venture: GTQ) Big Springs and Dorsey Creek Properties.

Stargo Property is located in the Monitor Range about 45 miles southwest of the town of Eureka and about 20 miles west of the Northumberland Mine and comprises of a total of 257 lode claims (about 5,140 acres) in Nye County, Nevada.

West Whistler Property is located on the west flank of Whistler Mountain, about 10 miles northwest of the town of Eureka and comprises of a total of 103 lode claims (about 2,060 acres) in Eureka County, Nevada.





## Edgar Filing: Tornado Gold International Corp - Form 10QSB

Brock Property is located in the Monitor Range about 36 miles southwest of the town of Eureka and about 24 miles northeast of the Northumberland Mine and comprises a total of 222 lode claims (about 4,440 acres) in Eureka County, Nevada.

Horseshoe Basin Property is located in the Fish Creek Mountains about 30 miles south of the town of Battle Mountain and about 4 miles south of the McCoy and Cove deposits.

South Lone Mountain Property is located on the west flank of the Mountain Boy Range in Antelope Valley about 15 miles southwest of the town of Eureka and consists of a total of 140 lode claims (about 2,800 acres) in Eureka County, Nevada.

Golconda Property is located in Rock Creek Valley about 12 miles east of the town of Winnemucca and near the intersection of the Getchell Trend and the north end of the Battle Mountain-Eureka Trend and comprises of a total of 108 lode claims (about 2,160 acres) in Humboldt County, Nevada.

North Battle Mountain Property is located in the Sheep Creek Range about 4 miles northeast of the town of Battle Mountain near the northern extension of the Battle Mountain-Eureka (Cortez) Trend and comprises a total of 73 lode claims (about 1,460 acres) in Lander County, Nevada.

Dry Hills Property is located in the Dry Hills about 20 miles southwest of the town of Carlin and comprises of a total of 96 lode claims (about 1,920 acres) in Eureka County, Nevada.

Walti Property is located in Grass Valley about 62 miles south of the town of Carlin and consists of a total of 402 lode claims (about 8,040 acres) in Eureka and Lander Counties, Nevada.

Marr Property is located between the Fish Creek Mountains and the Ravenswood Mountains about 50 miles southwest of the town of Battle Mountain. The property is along the Western Nevada Rift and consists of a total of 93 lode claims (about 1,840 acres) in Lander County, Nevada.

The Illipah gold prospect is situated in eastern Nevada at the southern extension of the Carlin Trend (T 18N, R 58E). The property consists of one hundred ninety one unpatented federal Bureau of Land Management lode mining claims, approximately 3,820 acres.

As of June 30, 2007, the Company incurred a total of \$1,862,148 in acquisition costs. The Company has recently commenced exploration of its properties and has yet to determine whether any of its properties are commercially feasible. In order for the Company to complete its analysis, additional funding is required.

### **NOTE 5 NOTES PAYABLE**

On July 1, 2005, the Company borrowed \$100,000 from Gatinara Holdings, Inc., an unrelated third party. The loan is evidenced by an unsecured promissory note. The note accrues interest at 8% per annum and matures on December 31, 2006. Accrued interest related to this note as of June 30, 2007 amounted to \$15,978. The principal and accrued interest was not paid as of December 31, 2006 and is now in default.

From August 9, 2005 to October 5, 2005, the Company borrowed a total of \$330,978 from Greenshoe Investment, Inc., an unrelated third party. The loans are evidenced by unsecured promissory notes. The notes accrue interest at 8% per annum and mature on December 31, 2007. Accrued interest related to these notes as of June 30, 2007 amounted to \$48,285. The principal balance due is convertible into common shares of the Company's common stock at a conversion price of \$.40 per share.

Edgar Filing: Tornado Gold International Corp - Form 10QSB

During the six months ended June 30, 2006, the Company borrowed a total of \$649,838 from Greenshoe Investment, Inc. The loans are evidenced by unsecured promissory notes. The notes accrue interest at 8% per annum and mature on December 31, 2007. Accrued interest related to these notes as of June 30, 2007 amounted to \$72,627. The principal balance due is convertible into common shares of the Company's common stock at a conversion price of \$.40 per share.

## **NOTE 6 STOCKHOLDERS EQUITY (DEFICIT)**

### **Common Stock**

On April 19, 2004, the Company authorized a 50-for-1 stock split. On August 18, 2004, the Company authorized a 6.82 -for-1 stock split. On May 16, 2005, the Company authorized a 1.20 -for-1 stock split. In addition, the Company increased its authorized shares to 100,000,000. The accompanying financial statements have been retroactively restated to present the effect of these three stock splits.

On April 15, 2005, the Company's officers and directors agreed to redeem an aggregate of 27,172,800 of their shares for \$7,906 or \$.0002909 per share. The shares include 13,586,400 shares from Dr. Abbott, and 6,793,200 shares from each of Messrs. Pescio and Keith. Dr. Abbott's shares were redeemed for \$3,954, and Messrs. Pescio and Keith each received \$1,976 for their shares. These amounts are the equivalent to the pre-split prices they paid for their shares when they joined the Company in March 2004. The \$7,906 was paid during the three months ended September 30, 2005.

In April 15, 2005, the holders of the notes payable converted the principal amount of the notes totaling \$1,025,000 and accrued interest of \$79,271 into 1,325,126 shares of the Company's common stock.

In the fourth quarter of 2005, the Company sold 625,000 shares of common stock to an investor for total cash proceeds of \$500,000. In connection with this transaction, the Company also issued to this investor a warrant to purchase 625,000 shares of common stock for \$0.85 per share. As of December 31, 2005, the Company received \$499,582. The remaining \$418 has been charged to equity and included in subscription receivable.

In the second quarter of 2006, the Company's former management exercised some of their options to purchase a total of 24,800 shares of the Company's common stock at a price of \$.15 per share.

In the third quarter of 2006, the Company sold 1,145,000 units through a private Reg S offering for \$343,500. Each unit consisted of one share of the Company's common stock and one warrant to purchase one share of the Company's common stock at \$.60 per share. The warrant expires three years from date of issuance. The warrants and underlying common shares are anti-dilutive.

In the fourth quarter of 2006, the Company issued 100,000 shares of its common stock in connection with the purchase of its Illipah mining claims. The shares were valued at \$33,000 which represents the shares market value on date of issuance. The \$33,000 was capitalized and included in the costs mining claims.

### **Options and Warrants**

- 1) In March 2004, the Company issued 60,000 options to former employees of the Company. In June 2006, former management exercised some of their options to purchase a total of 24,800 shares of the Company's common stock for \$3,720.
- 2) In accordance with a consulting agreement with Access Capital Management Corp., the Company issued Access Capital, 25,000 options in September 2005 to purchase shares of the Company's common stock for \$0.75 per share. In December 2005, the Company extended the term of the agreement and granted Access an additional 125,000 options to purchase shares of the Company's common stock at a price of \$0.75 per share. The 150,000 options granted expire on September 28, 2010 unless Access Capital no longer provides services for the Company whereby the options expire one year from the date of termination.
- 3) As discussed above, in connection with the issuance of the 625,000 shares of the Company's common stock, the Company granted 625,000 warrants to purchase shares of the Company's common stock at \$.85

per share.

- 4) In connection with the Company's July 2006 private offering, the Company issued 1,145,000 warrants to purchase shares of the Company's common stock at \$.60 per share. The warrants expire three years from the date of issuance.

The warrant holders have the right to convert the warrants granted into shares of the Company's common stock for no further consideration based upon a formula indicated in the warrant agreement.

- 5) Also in July 2006, the Company received \$1,500,000 in exchange for the issuance of 5,000,000 warrants which can be converted into 5,000,000 shares of the Company's common stock at any time by the warrant holder for no further consideration through July 14, 2016 on which date the Company will issue the 5,000,000 shares. The warrant holder was also granted an additional 5,000,000 warrants to purchase shares of the Company's common stock at a price of \$.60 per share. These additional warrants expire three years from the date of issuance.

The warrant holders have the right to convert the additional warrants granted into shares of the Company's common stock for no further consideration based upon a formula indicated in the warrant agreement.

In connection with the July 2006 common stock offering and granting of warrants, the Company agreed to register all common shares relating to the offering with the Securities and Exchange Commission within 180 days of receiving the proceeds from the offering. Under the terms of the Registration Rights Agreement, the investors are entitled to liquidating damages in an amount equal to 1% of the aggregate amount invested for each 30-day period or pro rata for any portion thereof, in which a registration statement was not declared effective by the Securities Exchange Commission. The Company has accrued \$178,205 relating to this breach which it charged to operations. Certain warrant holders have made demand for payment under the Registration Rights Agreement and the Company is currently in discussions with the investors relating to this matter.

The following table summarizes the options and warrants outstanding at June 30, 2007:

	Options/ Warrants Outstanding	Weighed Average Exercise Price
<b>Balance - December 31, 2004</b>	60,000	\$ .1500
Granted	775,000	\$ .8306
Exercised	-	
Forfeited	-	
<b>Balance - December 31, 2005</b>	835,000	\$ .7817
Granted	11,145,000	\$ .4654
Exercised	(24,800)	\$ (.1500)
Forfeited	-	
<b>Balance December 31, 2006</b>	11,955,200	\$ .4886
Granted	-	-
Exercised	-	-
Forfeited	-	-
<b>Balance June 30, 2007</b>	11,955,200	\$ .4886

All of the above options and warrants are exercisable at June 30, 2007.



**NOTE 7 INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of June 30, 2007 are as follows:

Deferred tax assets:	
Net operating loss	\$ 1,073,000
Less valuation allowance	(1,073,000)
	\$ -

At June 30, 2007, the Company had federal net operating loss ("NOL") carryforwards of approximately \$3,156,000. Federal NOLs could, if unused, begin to expire in 2024. The increase in deferred tax assets in 2007 of \$182,000 related to the Company's 2007 net operating loss which was reduced to \$0 due to the Company's 2007 valuation allowance.

Utilization of the net operating loss and tax credit carryforwards is subject to significant limitations imposed by the change in control under Internal Revenue Code Section 382.

**NOTE 8 RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2007 and 2006, the Company had the following transactions with related parties:

As discussed in Note 3, the Company entered into agreements with a company owned by Mr. Carl Pescio, a Director of the Company, to acquire mining claims. During the six months ended June 30, 2007, the Company paid Mr. Pescio \$150,000 related to these agreements.

As further discussed in Note 3, the Company entered into an agreement with Messrs. Abbott and Keith to acquire certain mining properties. During the six months ended June 30, 2007, the Company paid Mr. Abbott \$11,700 and Mr. Keith \$18,300 related to this agreement.

During the six month ended June 30, 2007 and 2006, the Company incurred consulting fees for services provided by Mr. Earl Abbott and related reimbursed costs totaling \$36,951 and \$101,898, respectively. Of the \$36,951 incurred in 2007, \$27,495 related to mining exploration and \$9,456, related to general administrative activities. Of the \$101,898 incurred in 2006, \$64,276 related to mining exploration and \$37,622 related to general administrative activities.

During the six months ended June 30, 2006, the Company incurred consulting fees of \$10,000 to Mr. George Drazenovic, its Chief Financial Officer. Mr. Drazenovic was not affiliated with the Company until 2006.

During the six months ended June 30, 2007, Mr. Carl Pescio advanced \$330,000 which is unsecured, non-interest bearing and due on demand.

**NOTE 9 PRIVATE STOCK OFFERING**

The Company is offering to the general public 1,250,000 units at price per unit of \$.20. Each unit consists of one share of the Company's common stock and a warrant to purchase one-half of one share of the Company's common stock at a price of \$.30 per share. Warrants expire 2 years after date of grant. The Company is deferring all direct costs associated with the offering. Costs will either be charged against the proceeds received through the offering, if the offering is successful, or charged to operations, if the offering is unsuccessful. As of June 30, 2007, deferred offering costs amount to \$2,500. No units have been sold as of June 30, 2007.





**Item 2. Management's Discussion and Analysis or Plan of Operation.**

**FORWARD-LOOKING STATEMENTS**

This quarterly report contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as *may*, *should*, *expects*, *plans*, *anticipates*, *believes*, *estimates*, *predicts*, *potential* or *could*, or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled *Risk Factors*, that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are stated in United States dollars and are prepared in conformity with generally accepted accounting principles in the United States of America for interim financial statements. The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this quarterly report.

As used in this quarterly report and unless otherwise indicated, the terms *we*, *us* and *our* refer to Tornado Gold International Corporation and our subsidiaries, unless otherwise indicated. Unless otherwise specified, all dollar amounts are expressed in United States dollars and all references to *common shares* refer to the common shares in our capital stock.

*Corporate History*

We were incorporated in Nevada as Nucotec, Inc. on October 8, 2001, in order to serve as a holding company for Salty's Warehouse, Inc. We disposed of that asset in March 2004 as described herein and changed our name to Tornado Gold International Corp. in July 2004. Our new management has undertaken to change our business focus. Prior to March 2004, we operated through Salty's Warehouse; under our new management, we are an exploration stage company that has begun to acquire low-risk, high-grade properties for gold exploration in Nevada. Using the evaluation technique described herein, we hope to acquire properties that will offer new economically viable gold mining properties for resale to entities who will undertake to begin mining operations on those properties. We believe that our technical team, consisting of our current management, will help us operate successfully. Earl W. Abbott, our officer and director, has extensive data and program management experience; Carl A. Pescio, also one of our directors, has on-the-ground prospecting and property knowledge; and George Drazenovic, our newest director and Chief Financial Officer, has experience in managing the financial functions of public reporting companies. There is, however, no assurance that a commercially viable mineral deposit exists on any of our properties. Further exploration will be required before a final evaluation as to the economic and legal feasibility is determined.

Effective February 28, 2007, we changed our domicile from Nevada to Delaware. The change of domicile was effected by merging Tornado Gold International Corporation, our recently incorporated and wholly-owned subsidiary, with and into our company, with our company carrying on as the surviving corporation under the name Tornado Gold International Corporation.

One of our former directors, Stanley B. Keith, has developed what we believe to be a new and unique technological approach for the exploration of certain types of gold deposits; we had the benefit of using this approach to identify suitable properties. Mr. Keith's approach has been developed over a twenty-year period and has been applied to a large, world-wide database that links specific geochemical signatures of certain types of gold deposits. Even though Mr. Keith is no longer a director of our company, we believe we have acquired sufficient knowledge in this technological approach to identify suitable properties.

With our most recent acquisitions of property interests in the fourth quarter of 2005, we now have a total of 15 properties comprised of about 44,840 acres, all located in the North Central Nevada area. We believe that our acquisitions up to now have provided us with a significant package of claims in what we believe to be a premier gold producing region.

On May 31, 2004, we entered into four preliminary agreements with a company wholly owned by Mr. Pescio to lease four mining properties. As of April 5, 2005, we finalized those agreements, giving us rights to four properties in Nevada that meet our preliminary screening criteria and have begun to undertake our more detailed evaluation process. In addition, we are actively seeking additional properties; our technical team currently has about 30 such properties on a watch list for acquisition.

On October 3, 2005, we paid the Bureau of Land Management \$30,875 as consideration on the Exploration License and Option to Lease Agreement entered into between the Company and Mr. Earl Abbott, and Stanley Keith to explore 247 claims (nearly 5,000 acres) known as the Jack Creek Property. Mr. Abbott is our President, Chief Executive Officer and one of our directors and Mr. Keith was a director of our company at that time. In addition, on August 7, 2006, we acquired an option for 53 additional claims at the Jack Creek Property. The option was acquired from Gateway Gold (USA) Corp. through Messrs. Abbott and Keith.

During October 2005, we entered into ten preliminary agreements with Mr. Carl A. Pescio, one of our directors, to acquire ten mineral properties in Nevada. These properties are comprised of approximately 1600 claims and are subject to availability and are being acquired by us without warranty from Mr. Pescio as to total availability and/or mineral potential. We have not yet finalized these agreements, but a short description of these properties is contained herein. We acquired these properties for \$35,000 per property, or \$350,000, with a down payment of \$50,000 and two payments of \$150,000 - one on November 30, 2005, and one on December 30, 2005. We also agreed to issue 100,000 shares of common stock for each property to Mr. Pescio in the form of warrants, options, or other, to be mutually agreed upon.

#### Other Claims Acquired in 2005.

Jack Creek Property - On October 3, 2005, we announced the acquisition of 247 claims (nearly 5,000 acres) on the Jack Creek property in Elko County, Nevada. Prior to September 30, 2005, we paid \$30,875 to the BLM to secure the claims. This payment was made as consideration on the Exploration License and Option to Lease Agreement entered into between us and Dr. Abbott and Mr. Keith (the Owners), to explore the 247 claims (nearly 5,000 acres) known as the Jack Creek Property.

#### Claims Acquired in 2006

On August 23, 2006, we entered into an agreement to acquire the Illipah gold prospect consisting of 191 unpatented mining claims located in White Pine County, Nevada in consideration for \$100,000 and 300,000 shares of our common stock. Under the terms of the purchase agreement, \$50,000 was paid upon signing with an additional \$50,000 and 100,000 shares of restricted common stock paid and issued on November 21, 2006. An additional 200,000 shares of restricted common stock is to be issued on or before August 23, 2007. Further, we assumed the seller's obligations in an underlying exploration and mining lease agreement on the claims, and granted to the seller a production royalty of two percent of net smelter returns on all rents and mineral production from the property. We also agreed to pay \$48,006.50 to the United States Department of the Interior Bureau of Land Management for mining claim maintenance fees, and be responsible for future annual maintenance and filing fees on the acquired claims and any advanced minimum royalty payments due to Carl Pescio, a director of our company, and Janet Pescio under an August 31, 2001, agreement between the Pescio's and the seller.

We have the option, exercisable at any time prior to commercial production on any of the Illipah claims, to reduce production royalties due to the seller from two percent to one percent by paying it \$1,000,000 or its equivalent in gold

bullion priced as of the August 24, 2006 closing price of gold on the New York Commodity Exchange. We also agreed to undertake an exploration program on the Illipah property and related area of interest, and incur exploration and development expenditures of at least \$750,000 within two years, of which \$250,000 is to be expended during the first year of the agreement.

## **Critical Accounting Policies**

Our Management's Discussion and Analysis or Plan of Operation section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities, which are not readily apparent from other sources, accruals for other costs, and the classification of net operating loss and tax credit carry-forwards between current and long-term assets.

## **Mining Costs.**

Costs incurred to purchase, lease or otherwise acquire property are capitalized when incurred. General exploration costs and costs to maintain rights and leases are expensed as incurred. Management periodically reviews the recoverability of the capitalized mineral properties and mining equipment. Management takes into consideration various information including, but not limited to, historical production records taken from previous mine operations, results of exploration activities conducted to date, estimated future prices and reports, and opinions of outside consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or property.

## **Liquidity and Capital Resources.**

We had cash totalling \$3,764 and prepaid expenses totalling \$41,280 as of June 30, 2007, making our total current assets \$45,044. We also had mining claims of \$1,862,148, computer equipment of \$2,657, deferred offering costs of \$2,500 and intangible assets of \$5,723, making our total assets \$1,918,072 as of June 30, 2007. As of that date, our available cash and cash equivalents were not sufficient to pay our day-to-day expenditures or to effectuate our business plan. In July 2006, we sold approximately \$1.84 million of our equity securities in a private placement. We are committed to continue to seek the necessary financing needed to continue operating through the sale of equity or debt financing, though there is no guarantee we will be able to do so.

As of June 30, 2007, we had a net working capital deficit of \$1,828,305.

Net cash used in operating activities was \$288,362 for the six month period ended June 30, 2007 compared to \$266,770 for the six month period ended June 30, 2006.

Due to numerous economic and competitive risks, any or all of which may have a material adverse impact upon our operations, there can be no assurance that we will be able to generate significant revenues or achieve a level of positive cash flow that would permit us to continue our current business plan. Our current plans encompass the identification and acquisition of properties exhibiting the potential for gold mining operations by others. However, as noted, we must continue to raise additional capital in order to ensure the availability of resources sufficient to fund all of our general and administrative expenses for the next twelve months.

No assurances can be given that we will be able to obtain sufficient operating capital through the sale of our common stock and borrowing or that the development and implementation of our business plan will generate sufficient revenues in the future to sustain ongoing operations. These factors raise substantial doubt with our auditor about our

ability to continue as a going concern.

**Plan of Operations.**

In July 2006, we closed a financing of US \$1,844,000. A substantial portion of the funds have been devoted to the lease costs of our 15 properties. We used a material portion for administrative overhead and future acquisition opportunities. Thus, we expect to have less than \$500,000 available for exploration on its current properties over the

next 12 months, during which period we will continue to pursue additional financing opportunities to further its exploration and acquisition program.

We begin our exploration process by attempting to understand the regional geology of our prospects and by progressing through the district-wide geologic setting. Eventually, we graduate to the geologic setting of each individual proposed drill hole. Before drilling, we attempt to predict our probability of success, and we will drill only sites that we believe have the best chance of encountering a gold deposit. Typically, we will engage in integrated surface geological, geochemical, and geophysical analysis before we begin drilling. Some of the specific methods that we will engage in include magmatic affinity, pluton vectoring, kinetic structural analysis, and metal dispersion.

To date, we have acquired leases in several claim blocks in the North Central Nevada area. In total, the property package represents 15 properties comprised of approximately 44,840 acres. However, in addition to our initial exploration program, we will need to spend significant funds to complete further in-depth drilling and engineering studies before we can identify whether or not we have a commercially viable mineral deposit.

Future funding levels will also determine the extent and number of properties that we will explore. No certainty can be ascertained on our overall exploration program until significant funding levels have been achieved.

While most properties will be examined and sampled, we will also analyze the results of all previous work that is publicly available for the properties. We currently expect that in Spring 2007, we will perform a small amount of drilling on the Jack Creek property. A ranking system will enable us to decide which properties will undergo detailed work and drill at the earliest opportunity. The remaining properties will be made available for farm-out or for development at a later date, or dropped all-together from further work.

The following is a list of projects on which, as of the date of this quarterly report, we have decided to focus during the next 12 months. The prioritization of, and the projects themselves, are expected to change depending on funding levels and preliminary sampling results:

Jack Creek. We intend to undertake geological and structural analysis, as well as soil sampling and geophysical surveys, on this property, located in the Independence Mountains mining district about 50 miles north of Elko, Nevada. The intended work is in preparation for an intended drill program on the property currently expected to be performed in Spring 2007, which, in aggregate, is expected to cost up to approximately \$100,000.

The Jack Creek property comprises a total of approximately 6,000 acres in Elko County, Nevada, and is located in the northern Independence Mountains. Management believes that the property is attractive because it occupies the southwest flank of a prominent gravity high, indicating the presence of relatively shallow Paleozoic carbonate sedimentary rocks.

Recently, we acquired an option for 53 additional claims at the Jack Creek Property, Elko County, Nevada. The option was acquired from Gateway Gold (USA) Corp. through a director and former director, Earl Abbott and Stanley Keith. We have the option to earn a 50% undivided interest in the 53 claims through our expenditure on the claims of a total of \$500,000 in various stages by March 1, 2007, 2008, and 2009. Currently, however, we do not have such funds available and will need to raise additional funds in order to exercise the option.

NT Green. Exploration currently anticipated to occur during the Spring of 2007 will focus on delineating drill targets. The property will be prospected by sampling and analysis of mineralized rock. We expect to perform a kinematic structural analysis of the property and expect to produce a more realistic geologic map than those made available in the past. A soil geochemistry program will aid in identifying favorable fault structures and intersections, as well as the centers of the most active hydrothermal activity. A pluton vectoring study is expected to be performed by analysis of all intrusive rocks and their interpretation. In addition, an airborne magnetic survey is expected to be performed over the property to aid in the discovery of dikes and sills and to aid in the mapping and structural analysis. It is intended



that by the Spring of 2007, we will have identified targets for permitting and drilling. We have budgeted up to approximately \$100,000 to complete this program; however, that amount may vary depending on preliminary results.

Goodwin Hill. Exploration on this property may include geologic mapping to identify prospective fault structures that can be projected under alluvium. Sampling of all mineralized rocks is expected to provide a vector toward the

center of hydrothermal activity. Gravity and magnetic geophysical studies are expected to be performed to define the buried shallow basement rocks better. These studies are intended to provide low risk drilling targets for permitting and drilling in the Spring of 2007. As of the date of this quarterly report, we have budgeted nearly \$50,000 for this program.

Work to date in the area has indicated a large Carlin type system within prospective lower plate carbonate rocks on the flanks of a major dome and near intrusive bodies.

HMD. Exploration on this property will be directed toward delineating low-risk drill targets. We currently expect that we will undertake a kinematic structural analysis of the exposed silicified rocks along the HMD structure combined with careful rock sampling to locate points along the fault where hydrothermal activity is most intense. We intend to supplement these studies with soil sampling, and the resulting drill targets will be sharpened by detailed IP surveys. By the Spring of 2007, we hope to have targets prepared for permitting and drilling. We expect to spend up to approximately \$50,000 for this program over the next 12 months.

Wilson Peak. A program of kinematic structural analysis, combined with multi-element rock and soil sampling, is currently planned for Wilson Peak. Potential drill targets will be sharpened by IP geophysical surveys. Assuming we have raised sufficient funds, permitting and drilling are planned for Spring 2007. We expect that this program will require up to approximately \$50,000 for the next 12 months.

Other Properties. We hope to undertake additional exploration studies on the Stargo, West Whistler, Brock, Horseshoe Basin, South Lone Mountain, Golconda, North Battle Mountain, Dry Hills Property, Walti, and Marr Properties, but no detailed plans to conduct exploration on these properties have yet been determined. We believe that it could expect to spend up to approximately \$150,000 on these properties, thus, bringing the total funds budgeted for the next 12 months to \$500,000.

Our forecast for the period for which our financial resources will be adequate to support our operations involves risks and uncertainties, and actual results could fail as a result of a number of factors. We will need to raise additional capital to exploit our properties. In the event that we experience a shortfall in our capital, we intend to pursue capital through public or private financing as well as borrowings and other sources. We cannot guarantee that additional funding will be available on favorable terms, if at all and if adequate funds are not available. Our ability to continue or expand our operations may be significantly hindered. We have not contemplated any plan of liquidation in the event that we do not generate revenues.

As an exploration company, we are not currently conducting any research and development activities and we do not anticipate conducting such activities in the near future. In the event that we obtain significant funding to fully implement our exploration program, we will need to hire additional employees or independent contractors and possibly purchase or lease additional equipment. With large current demand for resource exploration equipment and human capital in the state of Nevada, there is no guarantee that we will be able to meet our equipment and human capital needs. However, management believes that the network of relationships developed over the years by our officers and directors in Nevada will largely mitigate any shortages that similar companies face.

The projects described above will be managed by Dr. Earl Abbott. Dr. Abbott holds a Ph.D degree in geology from Rice University where he studied the tectonics of the western U.S. He has spent 34 years exploring for mineral deposits, 26 of them for gold in Nevada, and, with Carl Pescio, he managed an exploration program in Nevada in 1981 resulting in the acquisition of 3 gold orebodies that were mined profitably. Over his career, Dr. Abbott has consulted to the mining industry and has been an officer and director of several junior mining companies. Dr. Abbott is a Certified Professional Geologist by the American Institute of Professional Geologists (AIPG) and past President of the Nevada Chapter. He is also a member and past President of the Geological Society of Nevada (GSN), the Nevada Petroleum Society (NPS), and the Denver Region Exploration Geologists Society (DREGS); and he is a member of the Society of Economic Geologists (SEG), the Society for Mining, Metallurgy, and Exploration (SME), the

Geological Society of America (GSA), the Northwest Mining Association (NWMA), the British Columbia & Yukon Chamber of Mines, and the Prospectors and Developer Association of Canada (PDAC). Dr. Abbott is a Qualified Person under the rules of National Instrument 43-101.

We expect to utilize the services of various third-party geological professionals to assist with the various projects. The number of consultants will depend on our initial exploratory results and funding levels. No plans are in place for a significant change in the number of full-time personnel.

Currently, we have no research and development plans and no intention to purchase or sell plant or significant equipment.

### **Result of Operations.**

For the three month period ended June 30, 2007, compared to the three month period ended June 30, 2006.

Revenue - We have realized no revenues for the three month period ended June 30, 2007 and no revenues for the three month period ended June 30, 2006.

Operating Expenses - For the three month period ended June 30, 2007, our total operating expenses were \$108,457, compared to our total operating expenses of \$166,815 in the corresponding prior period. Of the \$108,457 incurred in the three month period ended June 30, 2007, \$40,761 related to our mining exploration, \$67,696 related to general and administrative activities, and \$Nil related to our compensation expense on option grants. Of the \$166,815 incurred in the three month period ended June 30, 2006, \$41,307 related to mining exploration, \$125,508 related to general and administrative activities, and \$Nil related to our compensation expense on options grants. During the three month period ended June 30, 2007, we accrued \$21,261 in interest expenses on notes payable, compared to interest accruing during the three month period ended June 30, 2006, of \$21,557. No interest has been paid on notes payable during either period.

For the six month period ended June 30, 2007, compared to the six month period ended June 30, 2006.

Revenue - We have realized no revenues for the six month period ended June 30, 2007 and no revenues for the six month period ended June 30, 2006.

Operating Expenses - For the six month period ended June 30, 2007, our total operating expenses were \$313,412, compared to our total operating expenses of \$290,585 in the corresponding prior period. Of the \$313,412 incurred in the six month period ended June 30, 2007, \$119,958 related to our mining exploration, \$193,454 related to general and administrative activities, and \$Nil related to our compensation expense on option grants. Of the \$290,585 incurred in the six month period ended June 30, 2006, \$81,267 related to mining exploration, \$82,579 related to general and administrative activities, and \$Nil related to our compensation expense on options grants. During the six month period ended June 30, 2007, we accrued \$42,877 in interest expenses on notes payable, compared to interest accruing during the six month period ended June 30, 2006, of \$37,738. No interest has been paid on notes payable during either period. In addition, during the six month period ended June 30, 2007, we accrued \$178,205 in potential liquidating damages relating to our failure to register the underlying shares issued in our July 2006 private offering (See Note 6 to the financial statements).

### **Off-Balance Sheet Arrangements.**

There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors; except for our commitment to lease certain mining property that require us to make substantial lease payments in the future as disclosed in Notes to the financial statements included in our 10-KSB filed on April 17, 2007.

### *Significant Accounting Policies*

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* ( SFAS 123R ), which revises SFAS No. 123, *Accounting for Stock Based Compensation*, and supersedes APB 25. Among other items, SPAS 123R eliminates the use of APS 25 and the intrinsic value method of accounting, and requires companies to recognize in the financial statements the cost of employee services received in exchange for awards of equity instruments, based on the grant

date fair value of those awards. This cost is to be recognized over the period during which an employee is required to provide service in exchange for the award (typically the vesting period). SFAS 123R also requires that benefits associated with tax deductions in excess of recognized compensation cost be reported as a financing cash inflow, rather than as an operating cash flow as required under current literature.

SFAS 123R permits companies to adopt its requirements using either a modified prospective method, or a modified retrospective method.

Under the modified prospective method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based awards granted or modified after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the modified retrospective method, the requirements are the same as under the modified prospective method, but this method also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS 123.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154), which changes the requirements for the accounting for and reporting of a change in accounting principle. The statement requires retrospective application to prior period financial statements of changes in accounting principle, unless impracticable to do so. It also requires that a change in the depreciation, amortization, or depletion method for long-lived non-financial assets be accounted as a change in accounting estimate, effected by a change in accounting principle. Accounting for error corrections and accounting estimate changes will continue under the guidance in APB Opinion 20, Accounting Changes, as carried forward in this pronouncement. The statement is effective for fiscal years beginning after December 15, 2005.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and 124-1. The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the determination as to when an investment is considered impaired, whether the impairment is other-than-temporary, and the measurement of an impairment loss. The investment is impaired if the fair value is less than cost. The impairment is other-than-temporary for equity securities and debt securities that can contractually be prepaid or otherwise settled in such a way that the investor would not recover substantially all of its cost. If other-than-temporary, an impairment loss shall be recognized in earnings equal to the difference between the investment's cost and its fair value. The guidance in this FSP is effective in reporting periods beginning after December 15, 2005. Our company is reviewing FSP Nos. FAS 115-1 and 124-1, but does not expect that the adoption of this FSP will have a material effect on its consolidated financial statements.

We do not anticipate that the adoption of these standards will have a material impact on our financial statements.

## **RISK FACTORS**

Much of the information included in this current report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements.

Our common shares are considered speculative during the development of our new business operations. Prospective investors should consider carefully the risk factors set out below.

### **Risks Related to Our Business and Our Industry**

*There is no assurance that we will operate profitably or will generate positive cash flow in the future.*

We have never generated any revenues from operations. We do not presently have sufficient financial resources or any operating cash flow to undertake by ourselves all of our planned exploration and development programs. If we cannot generate positive cash flows in the future, or raise sufficient financing to continue our normal operations, then we may be forced to scale down or even close our operations. Furthermore, our ability to meet our business plan could be adversely affected.

We will depend almost exclusively on outside capital to pay for the continued exploration and development of our properties. Such outside capital may include the sale of additional stock and/or commercial borrowing. Capital may

not be available to meet our continuing exploration and development costs or, if the capital is available, it may not be on terms acceptable to us. The issuance of additional equity securities by us would result in a significant dilution in the equity interests of our then-current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

If we are unable to obtain financing in the amounts and on terms deemed acceptable to us, we may be unable to continue our business, and as a result, we may be required to scale back or cease operations for our business, the result of which would be that our stockholders would lose some or all of their investment.

***We have a limited operating history, and if we are not successful in continuing to grow our business, we may have to scale back or even cease our ongoing business operations.***

Our company has a limited operating history and must be considered in the exploration stage. Our operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. We may be unable to operate on a profitable basis. We are in the exploration stage and potential investors should be aware of the difficulties normally encountered by enterprises in the exploration stage. If our business plan is not successful, and we are not able to operate profitably, investors may lose some or all of their investment in our company.

***There are numerous exploration and development risks associated with our industry.***

There is no assurance given by us that our exploration and development programs and properties will result in the discovery, development, or production of a commercially viable ore body.

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. There is no assurance that our mineral exploration and development activities will result in any discoveries of bodies of commercial ore. The economics of developing gold and other mineral properties are affected by many factors, including capital and operating costs, variations of the grade of ore mined, fluctuating mineral markets, costs of processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes to extract metal from ore, and to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that funds required for development can be obtained on a timely basis. The marketability of any minerals acquired or discovered may be affected by numerous factors which are beyond our control and which cannot be accurately foreseen or predicted, such as market fluctuations, the global marketing conditions for precious and base metals, the proximity and capacity of milling facilities, mineral markets, and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting minerals, and environmental protection.

***The price of gold can be volatile.***

Gold prices historically have fluctuated widely and are affected by numerous factors outside of our control, including industrial and retail demand, central bank lending, sales and purchases of gold, forward sales of gold by producers and speculators, levels of gold production, short-term changes in supply and demand because of speculative hedging activities, confidence in the global monetary system, expectations of the future rate of inflation, the strength of the US dollar (the currency in which the price of gold is generally quoted), interest rates, and global or regional political or economic events.

The potential profitability of our operations is directly related to the market price of gold. A decline in the market price of gold would materially and adversely affect our financial position. A decline in the market price of gold may



also require us to write-down any mineral reserves that we might book, which would have a material and adverse effect on our earnings and financial position. Further, if the market price of gold declines, we may experience liquidity difficulties if and when we attempt to sell any gold we discover. This may reduce our ability to invest in exploration and development, which would materially and adversely affect future production, earnings, and our financial position.

***Competition in the gold mining industry is highly competitive and there is no assurance that we will be successful in acquiring leases.***

The gold mining industry is intensely competitive. We compete with numerous individuals and companies, including many major gold exploration and mining companies, that have substantially greater technical, financial, and operational resources and staffs. Accordingly, there is a high degree of competition for desirable mining leases, suitable properties for mining operations, and necessary mining equipment, as well as for access to funds. We cannot predict if the necessary funds can be raised or that any projected work will be completed. There are other competitors that have operations in the Nevada area and the presence of these competitors could adversely affect our ability to acquire additional leases.

***Government regulation and environmental regulatory requirements may impact our operations.***

Failure to comply with applicable environmental laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities, causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations, and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

To the best of our knowledge, we are operating in compliance with all applicable environmental regulations.

***Adversarial legal proceedings may adversely affect us.***

We may become party to litigation or other adversary proceedings, with or without merit, in a number of jurisdictions. The cost of defending such claims may take away from management time and effort and if determined adversely to us, may have a material and adverse effect on our cash flows, results of operation, and financial condition. As at the date of this quarterly report, we are not a party to any material litigation or other adversary proceeding.

***Our directors and/or officers may have conflicts of interest.***

There is no assurance given by us that our directors and officers will not have conflicts of interest from time to time.

Our directors and officers have entered into, and may continue to enter into, numerous mining leases and options with us, which may not have been, or may not be, at arms-length.

Furthermore, our directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which we may participate, our directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict.

***We may be subject to uninsured risks.***

There is no assurance given by us that we are adequately insured against all risks.

We may become subject to liability for cave-ins, pollution, or other hazards against which we cannot insure or against which we have elected not to insure because of high premium costs or other reasons. The payment of such liabilities would reduce the funds available for exploration and mining activities.

***Our Bylaws contain provisions indemnifying our officers and directors against all costs, charges, and expenses incurred by them.***

Our Bylaws contain provisions with respect to the indemnification of our officers and directors against all costs, charges, and expenses, including an amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him, in a civil, criminal, or administrative action or proceeding, to which he is made a party by reason of his being or having been one of our directors or officers.

***Our Bylaws do not contain anti-takeover provisions, which could result in a change of our management and directors if there is a take-over of us.***

We do not currently have a stockholder rights plan or any anti-takeover provisions in our Bylaws. Without any anti-takeover provisions, there is no deterrent for a take-over of us, which may result in a change in our management and directors.

### **Risks Related to Owning Our Stock**

***A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.***

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of convertible debt and equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new projects and continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

***Trading of our stock may be restricted by the SEC's Penny Stock regulations, which may limit a stockholder's ability to buy and sell our stock.***

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

discourage investor interest in, and limit the marketability of, our common stock.

*NASD sales practice requirements may also limit a stockholder's ability to buy and sell our stock.*

In addition to the penny stock rules described above, the NASD has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's

financial status, tax status, investment objectives, and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low-priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

***Trading in our common shares on the OTC Bulletin Board is limited and sporadic, making it difficult for our stockholders to sell their shares or liquidate their investments.***

Our common shares are currently quoted on the OTC Bulletin Board. The trading price of our common shares has been subject to wide fluctuations. The market price of a publicly traded stock, especially a junior resource issuer like us, is affected by many variables in addition to those directly related to exploration successes or failures. Such factors include the general condition of the market for junior resource stocks, the strength of the economy generally, the availability and attractiveness of alternative investments, and the breadth of the public market for the stock. The effect of these and other factors on the market price of the common shares on the OTC Bulletin Board suggests that our shares will continue to be volatile. The stock market has generally experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of companies with no current business operation. There can be no assurance that trading prices and price earnings ratios previously experienced by our common shares will be matched or maintained. These broad market and industry factors may adversely affect the market price of our common shares, regardless of our operating performance. Therefore, investors could suffer significant losses if our shares are depressed or illiquid when an investor seeks liquidity and needs to sell our shares.

In the past, following periods of volatility in the market price of a company's securities, securities class-action litigation has often been instituted. Such litigation, if instituted, could result in substantial costs for us and a diversion of management's attention and resources.

***Because of the early stage of development and the nature of our business, our securities are considered highly speculative.***

Our securities must be considered highly speculative, generally because of the nature of our business and the early stage of its development. We are engaged in the business of mining. Our properties are in the exploration stage only and are without known gold reserves. Accordingly, we have not generated any revenues nor have we realized a profit from our operations to date and there is little likelihood that we will generate any revenues or realize any profits in the short term. Any profitability in the future from our business will be dependent upon locating and developing gold, which itself is subject to numerous risk factors as set forth herein. Since we have not generated any revenues, we will have to raise additional monies through the sale of our equity securities or debt in order to continue our business operations.

***Investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share if we issue additional shares or raise funds through the sale of equity securities.***

In the event that we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in us will be diluted and investors may suffer dilution in their net book value per share, depending on the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change in our control.

***Failure to pay mandatory state fees may impact our business prospects.***

We must pay annual fees to the State of Nevada in connection with certain of our mining claims. Failure to pay those fees could result in the temporary or permanent loss of our rights to such mining claims. To the best of our knowledge,

we are current on all fees owed to the State of Nevada.

**Item 3. Controls and Procedures.**

Evaluation of Disclosure Controls and Procedures

As of June 30, 2007, the end of the period covered by this report, our Chief Executive Officer, Earl W. Abbott, and our Chief Financial Officer, George Drazenovic, reviewed and evaluated the effectiveness of our disclosure controls

and procedures (as defined in Exchange Act Rule 13a-15 and Rule 15d-15(e)), which are designed to ensure that material information we must disclose in our report filed or submitted under the Securities Exchange Act of 1934, as amended (the Exchange Act ) is recorded, processed, summarized, and reported on a timely basis. We have concluded, based on that evaluation, that, as of such date, the disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The evaluation did not detect any material weaknesses in our system of internal accounting controls over financial reporting. There have been no changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out our evaluation.

During our most recently completed fiscal quarter ended June 30, 2007, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of our management and directors; and
- (c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

#### Limitations on the Effectiveness of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of the control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, and/or the degree of compliance with the policies or procedures may deteriorate.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings.**



We know of no material, active or pending legal proceedings against us, nor are we involved as a plaintiff in any material proceedings or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered beneficial shareholder are an adverse party or has a material interest adverse to us.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

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

Other than as described below, there were no matters submitted to a vote of our security holders either through solicitation of proxies or otherwise in the three month period ended June 30, 2007:

On January 24, 2007 we held our Annual General Meeting of Shareholders (the Meeting ) pursuant to a Notice and Proxy Statement duly filed pursuant to Regulation 14A under the Securities Exchange Act of 1934.

At the Meeting, the following persons were elected Directors of our company: Earl W. Abbott, George Drazenovic and Carl Pescio. The appointment of Jonathon P. Reuben, CPA as our auditor for the ensuing year was also ratified at the Meeting.

To provide our shareholders with more time to consider and understand the proposed agreement and plan of merger with our wholly-owned Delaware subsidiary, so that we may be re-incorporated as a Delaware corporation, a motion was passed to adjourn the Meeting to 12:00 P.M. February 14, 2007 at the offices of Clark Wilson LLP at 800 885 West Georgia Street, Vancouver, British Columbia.

On February 14, 2007 we held our Annual and Special General Meeting of Shareholders adjourned from January 24, 2007 (the Adjourned Meeting ). At the Adjourned Meeting, our shareholders passed the resolution to approve the proposed agreement and plan of merger with our wholly-owned Delaware subsidiary so that we may be reincorporated as a Delaware corporation.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

*Exhibits required by Item 601 of Regulation S-B*

**Exhibit Description of Exhibit**

3(i).1	Articles of Incorporation filed with the Nevada Secretary of State on October 8, 2001 (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
3(i).2	Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on July 7, 2004. (Incorporated by reference to Exhibit 3.1.1 of our Current Report on Form 8-K filed on July 13, 2004).
3(i).3	Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on August 25, 2004. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 31, 2004).

- 3(ii).1 Bylaws (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
- 4.1 2005 Stock Option Plan. (Incorporated by reference to Exhibit 4.1 of our Amended Annual Report for 2005 filed on September 1, 2005).

- 5.1 Form of Opinion of Bryan Cave LLP regarding the legality of common stock (to be filed by amendment).
- 10.1 Plan of Reorganization and Acquisition, dated May 10, 2002 (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
- 10.2 Promissory note between the Company and Gattinara Holdings, Inc. (Incorporated by reference to Exhibit 10 of the Company's Quarterly Report for the second quarter of 2005 on Form 10-QSB filed on August 23, 2005.)
- 10.3 Consulting Agreement with Carl Pescio. (Incorporated by reference to Exhibit 10.12 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.4 Consulting Agreement with Earl Abbott. (Incorporated by reference to Exhibit 10.13 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.5 Consulting Agreement with Stanley Keith. (Incorporated by reference to Exhibit 10.14 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.6 Mining Lease and Option to Purchase Agreement - Goodwin Hill. (Incorporated by reference to Exhibit 10.15 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.7 Mining Lease and Option to Purchase Agreement - NT Green. (Incorporated by reference to Exhibit 10.16 of our Amended Annual Report for 2004 filed on September 1, 2005).

10.18 Form of Letter Agreement between the registrant and Golden Cycle Gold Corporation, entered on or about August 23, 2006. (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8- K filed on August 29, 2006).

17.1 Letter of resignation of Earl Abbott as Chief Financial Officer. (Incorporated by reference to our Current Report on Form 8-K filed on March 30, 2006).

31.1\* Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2\* Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1\* Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

**TORNADO GOLD INTERNATIONAL CORPORATION**

By: /s/ Earl W. Abbott

Earl W. Abbott

CEO, President, Secretary, Treasurer

(Principal Executive Officer)

Date: August 20, 2007

By: /s/ George Drazenovic

George Drazenovic

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: August 20, 2007