

Tornado Gold International Corp  
Form 10KSB/A  
March 23, 2007

---

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

**FORM 10-KSB/A**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **December 31, 2005**

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

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

*Commission File Number: **000-50146***

**TORNADO GOLD INTERNATIONAL CORP.**

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

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**94-3409645**  
(I.R.S. Employer  
Identification No.)

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

(Address of principal executive offices)

**775-852-3770**

(Issuer's Telephone Number)

**APPLICABLE ONLY TO CORPORATE ISSUERS**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date.  
As of March 30, 2006, there were 28,791,726 shares of the issuer's \$.001 par value common stock issued and outstanding.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements  
incorporated  
by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [  ]

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

State issuer's net revenues for its most recent fiscal year. \$0.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by  
reference  
to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a  
specified  
date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) As of March 30, 2006,  
approximately  
\$12,523,201.08.

Documents incorporated by reference. There are no annual reports to security holders, proxy information statements,  
or any  
prospectus filed pursuant to Rule 424 of the Securities Act of 1933 incorporated herein by reference.

Transitional Small Business Disclosure format (check one): [  ] Yes [X] No

---

**EXPLANATORY NOTE**

EXPLANATION OF THE AMENDED FILING: THIS FORM 10-KSB/A AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 INCLUDED HEREIN HAVE BEEN AMENDED. OUR COMPANY HAS RESTATED THE FINANCIAL STATEMENTS BASED UPON OUR MANAGEMENT'S FURTHER REVIEW OF ITS STATUS AS AN EXPLORATORY STAGE COMPANY.

---

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS.

**OUR BACKGROUND.** 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. We changed our name to Tornado Gold International Corp., in July 2004.

**OUR BUSINESS.** Subsequent to the period covered by this report, our new management has undertaken to change our business focus. Prior to March 2004, we operated through our subsidiary, 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 new management will help us operate successfully: Earl W. Abbott, our officer and director, has extensive data and program management experience; Stanley B. Keith, one of our directors, has data and technical advisory experience; and Carl A. Pescio, also one of our directors, has 'on-the-ground' prospecting and property knowledge. 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.

In particular, Stanley B. Keith has developed what we believe to be a new and unique technological approach for exploration of certain types of gold deposits; we hope to use 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 these types of gold deposits.

We will seek to acquire only properties that exhibit these characteristics. We believe that using this methodology can enable us to eliminate properties that would turn out to contain lower quality gold deposits. Utilizing this geochemical screening methodology, we will seek to operate a successful property acquisition program that eliminates higher risk 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 this acquisition provides us with a significant package of claims in what we believe to be a premier gold producing region.

In our estimation, our portfolio of about 44,840 acres makes us one of the largest junior exploration companies in the region. After further exploration, our next three phases of development will be to advance the properties by identifying and prioritizing the drill targets, evaluating the economic and legal feasibility of drilling those targets and then actually drilling those targets.

On May 31, 2004, we entered into four preliminary agreements with a company wholly owned by Mr. Carl A. Pescio one of our directors, 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.

In June 2004, we acquired 125 mining claims in Nevada from the Bureau of Land Management for \$21,283, which includes the costs of filing fees and other related acquisition costs.

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 shares to Mr. Pescio in the form of warrants, options, or other, to be mutually agreed to, of 100,000 shares of the company for each of the properties.

MINING CLAIMS. The properties we hold claims to are described below and are shown on the following map:

NTGREEN GOLD PROPERTY. The NTGreen gold property is located in central Lander County, Nevada about 30 miles southwest of the town of Battle Mountain. The property is connected with Battle Mountain via an interstate highway, paved roads, good gravel roads, and finally a system of unimproved, dirt roads. We hold a total of 12 unpatented lode mining claims in the form of an option agreement with the claimant, Carl A. Pescio, one of our directors. All of the claims are recorded with the Lander County Recorder and filed with the Bureau of Land Management. We must make annual rental payments of \$140 per claim to the BLM and Lander County before September 1 of each year to keep the claims current. We must also make escalating advance royalty payments to Mr. Pescio to maintain the option agreement, beginning with \$22,500 on or before February 5, 2005 and rising to \$100,000 by February 5, 2011. We must perform a work commitment of 5,000 feet of drilling by September 1, 2006 followed by an annual work commitment of 5,000 feet of drilling until the completion of a bankable feasibility. Excess footage may be carried over from year to year and an option to pay \$10 per foot not drilled may be exercised. The property is subject to a 4% net smelter royalty that may be bought down to a 2% net smelter royalty by the payment of \$1,500,000 per one percent.

Upper Paleozoic sedimentary rocks are exposed in an erosional window beneath Tertiary volcanic rocks. The Paleozoic rocks exhibit the characteristics of gold-bearing rocks. A fault structure does traverse onto the NTGreen property. Placer Dome Mining Company is a former operator of the NTGreen property, but no data from their exploration work is in our hands. Low levels of gold as well as associated trace elements are documented from the property by limited surface sampling done by Mr. Pescio.

The NTGreen property is undeveloped and no reserves or resources are known. No mining or other mineral development is known to have been performed on the property. Carl A. Pescio did only limited work on the property and no work has been done by us. We believe that there are indications that an extensive gold system is present on the property that may have significant economic potential, though there is no guarantee that this is the case. We plan to conduct exploration work in the form of geological, geochemical, and geophysical studies to develop drill targets. Drilling will investigate these targets. Discovery of potentially economic gold values we believe will be followed by development of a reserve and, eventually, mining.

**GOODWIN HILL GOLD PROPERTY.** The Goodwin Hill gold property is located in east central Lander County, Nevada about 60 miles south of the town of Battle Mountain and about 20 miles northeast of the town of Austin. A good gravel county road, connecting to Battle Mountain and Austin, traverses the property. We hold a total of 92 unpatented lode mining claims in the form of an option agreement with the claimant, Carl A. Pescio. All of the claims are recorded with the Lander County Recorder and filed with the Bureau of Land Management. We must make annual rental payments of \$140 per claim to the BLM and Lander County before September 1 of each year to keep the claims current. We must also make escalating advance royalty payments to Mr. Pescio to maintain the option agreement, beginning with \$22,500 on or before February 5, 2005 and rising to \$100,000 by February 5, 2011. We must perform a work commitment of 5,000 feet of drilling by September 1, 2006 followed by an annual work commitment of 5,000 feet of drilling until the completion of a bankable feasibility. Excess footage may be carried over from year to year and an option to pay \$10 per foot not drilled may be exercised. The property is subject to a 4% net smelter royalty that may be bought down to a 2% NSR net smelter royalty by the payment of \$1,500,000 per one percent.

The property is centered on a small hill of Paleozoic limestone surrounded by alluvium recent gravels that obscure the basement rocks. Geophysical studies by Kennecott Mining Company, the former operator, have reportedly indicated that the basement rocks are at a shallow depth beneath the gravels in some areas on the property. The limestone outcrop is along the northeast projection of a dome-like feature that exposes Paleozoic rocks of the lower plate of the Roberts Mountains Thrust Fault. Work by the previous operator, Kennecott, has reportedly encountered low level gold and elevated levels of arsenic and other trace elements known to be associated with gold. Shallow drilling in the gravels over the geophysically determined shallow basement rocks reportedly encountered low level gold and associated elements in the basement rocks.

The property is undeveloped and no reserves or resources are known. No mining or other mineral development is known to have been performed on the property. No exploration work has been done to date by the Carl A. Pescio or by Tornado Gold International. However, an extensive gold system is reportedly indicated by the work of Kennecott that may have significant economic potential. We plan to conduct exploration work in the form of geological, geochemical, and geophysical studies are planned to develop drill targets. Drilling will investigate these targets. If we discover potentially economic gold values we believe the property will be ready for development of a reserve and, eventually, mining.

**WILSON PEAK GOLD PROPERTY.** The 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. Paved highways connect to a good gravel county road that traverses the property. We hold a total of 61 unpatented lode mining claims in the form of an option agreement with the claimant, Carl A. Pescio, one of our directors. All of the claims are recorded with the Lander County Recorder and filed with the Bureau of Land Management. We must make annual rental payments of \$140 per claim to the BLM and Lander County before September 1 of each year to keep the claims current. We must also make escalating advance royalty payments to Mr. Pescio to maintain the option agreement, beginning with \$22,500 on or before February 5, 2005 and rising to \$100,000 by February 5, 2011. We must perform a work commitment of 5,000 feet of drilling by September 1, 2006 followed by an annual work commitment of 5,000 feet of drilling until the completion of a bankable feasibility. Excess footage may be carried over from year to year and an option to pay \$10 per foot not drilled may be exercised. The property is subject to a 4% net smelter royalty that may be bought down to a 2% net smelter royalty by the payment of \$1,500,000 per one percent.

The property is on the west flank of the Bull Run Mountains and covers an area of Tertiary volcanic rocks containing elevated gold values extending for a length of at least 2 miles. In addition to elevated gold values, associated trace elements such as arsenic and mercury are present in elevated amounts.

The Wilson Peak property is undeveloped and no reserves or resources are known. No mining or other mineral development is known to have been performed on the property. Carl A. Pescio did no work on the property and no work has been done by us. Indications are that an extensive gold system is present on the property that may have significant economic potential. We plan to conduct exploration work in the form of geological, geochemical, and

geophysical studies to develop drill targets. Drilling will investigate these targets. If we discover potentially economic gold values on the property, we believe the property will then be ready for the development of a reserve and, eventually, mining.

**HMD GOLD PROPERTY.** The HMD gold property is located in Eureka County, Nevada, about 30 miles southwest of the town of Carlin. An interstate highway, paved roads and good gravel roads connect the property with Carlin. We hold a total of 32 unpatented lode mining claims in the form of an option agreement with the claimant, Carl A. Pescio, one of our directors. All of the claims are recorded with the Lander County Recorder and filed with the Bureau of Land Management. We must make annual rental payments of \$140 per claim to the BLM and Lander County before September 1 of each year to keep the claims current. We must also make escalating advance royalty payments to Mr. Pescio to maintain the option agreement, beginning with \$22,500 on or before February 5, 2005 and rising to \$100,000 by February 5, 2011. We must perform a work commitment of 5,000 feet of drilling by September 1, 2006 followed by an annual work commitment of 5,000 feet of drilling until the completion of a bankable feasibility. Excess footage may be carried over from year to year and an option to pay \$10 per foot not drilled may be exercised. The property is subject to a 4% net smelter royalty that may be bought down to a 2% net smelter royalty by the payment of \$1,500,000 per one percent.

## Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

The HMD property is within a geologic feature called the Northern Nevada Rift. Near the range front of the Cortez Range, the property covers a distinct vein of quartz along a fault structure. The structure can be followed for a length of at least one mile and is probably more extensive under gravel cover. The vein is more than 50 feet thick in places along the structure.

The property is undeveloped and no reserves or resources are known. No mining or other mineral development is known to have been performed on the property. No exploration work has been done to date by Carl A. Pescio or by Tornado Gold International. However, an extensive gold system is reportedly indicated by the work done by Homestake that may have significant economic potential. We plan to conduct exploration work in the form of geological, geochemical, and geophysical studies to develop drill targets. Drilling will investigate these targets. We hope to discover potentially economic gold values, which we believe will be followed by development of a reserve and, eventually, mining.

A schedule of the advanced lease payments for the each of the four properties above (HMD Gold Property, NT Green Gold Property, Wilson Peak Gold Property and the Goodwin Hill Property) are as follows:

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

Upon completion of a bankable feasibility study and payments totaling \$105,000, we 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 Mr. Pescio on production on property consisting of a 2 mile circumference surrounding the leased property.

We will pay additional land acquisition and filling fees on the property. We are 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. Excess footage drilled in any year will be carried forward to subsequent years. We have the option to pay Mr. Pescio \$10 per foot committed to and not drilled.

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

We shall be responsible for all environmental liabilities and reclamation costs we create and indemnify Mr. Pescio against any such claims or obligations. We 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.

We are current with all the lease payments on this property as of March 30, 2006.

### **OTHER CLAIMS ACQUIRED IN 2005**

**JACK CREEK PROPERTY.** On October 3, 2005, we announced the acquisition of the 247-claims (nearly 5,000 acres) Jack Creek property in Elko County, Nevada. Our final purchase price is still being determined. Prior to

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

September 30, 2005, we paid \$30,875 to the Bureau of Land Management 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. Earl Abbott, and Stanley Keith (the "Owners"), to explore 247 claims (nearly 5,000 acres) known as the Jack Creek Property. Dr. Abbott is our president and Mr. Keith is one of our directors.

## Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

Under the preliminary terms of this agreement, we were granted a license to explore the property for a period of six-months to determine what claims, if any, it wishes to lease. The term of the license is for six-months, but we have the option to extend.

If we lease all of the 247 claims, we will be required to make the following advance lease payments:

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 from us to the Owners, Dr. Abbott, our president and one of our directors, and Mr. Keith, one of our directors, are not paid within 30 days of its due date, interest will be 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. A 1% royalty is also due the owners on production on property consisting of a 2 mile circumference surrounding the leased property.

We will have the option to purchase one-half of the royalty applicable to the property representing 2% of the net smelter returns. We will also have the right to elect to purchase such part of the royalty in increments representing 1% of the net smelter returns and the purchase price for each such increment shall be \$1,500,000. We will have the option to purchase one-half of the area of interest royalty applicable to mineral rights, mining claims and properties which we acquire from third parties representing 0.5% of the Net Smelter Returns. The purchase price for such part of the area of interest royalty shall be \$500,000 for the 0.5% of the area of interest royalty applicable to mineral rights, mining claims and properties which we acquire from any third party.

We shall be responsible for all environmental liabilities and reclamation costs it creates and indemnifies the owners against any such claims or obligations. We 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.

The terms and obligations disclosed above are based upon preliminary agreements of the parties still under review and may be subject to change.

### **BROCK DRY HILLS, GOLCONDA, HORSESHOE BASIN, MARR, NORTH BATTLE MOUNTAIN, SOUTH LONE MOUNTAIN, STARGO, WALTI, AND WEST WHISTLER PROPERTIES.**

On October 6, 2005, we entered into a preliminary agreement with Mr. Carl Pescio, one of our directors, to lease 10 mineral properties (about 1,300 claims) in Nevada. Under the term of the preliminary agreement, we are 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

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

4th anniversary	\$ 125,000
5th anniversary	\$ 150,000
6th anniversary and each anniversary thereafter	\$ 200,000

6

---

The above \$35,000 advance in 2005 was to be paid in installments of \$5,000 upon signing. The remaining \$30,000 was paid in 2006. We are currently in renegotiations with Mr. Pescio to finalize the actual terms of the 10 leases.

**SUMMARY OF MINIMUM LEASE PAYMENTS:**

Based upon the actual terms of the leases acquired in May 2004 and the preliminary terms of the leases acquired in October 2005, our obligation for minimum lease payments on these 15 properties is as follows:

2006	\$ 692,500*
2007	\$ 930,000
2008	\$ 1,237,500
2009	\$ 1,550,000
2010	\$ 1,862,500
Minimum lease payments in Subsequent years	\$ 2,500,000

\* (Excludes the \$300,000 paid in 2006 on the above 10 mining properties)

As of December 31, 2005, we incurred \$524,333 in acquisition costs. All of the properties held are located in the state of Nevada. We have recently commenced our exploration of these properties and have yet to determine whether any of our properties are commercially viable. In order for us to complete this analysis, additional funding is required.

**DESCRIPTIONS OF OUR PROPERTIES:**

**Brock Property:** A total of 222 lode claims (about 4,440 acres) in Eureka County, Nevada comprise the Brock Property. It is located in the Monitor Range, about 36 miles southwest of Eureka, Nevada. The geologic setting at Brock has alteration and mineralization occurring in the Lower Plate/Eastern "carbonate" assemblage of the Roberts Mountains Thrust Fault. At Brock, alteration/mineralization in the form of jasperoid is widespread throughout the carbonate assemblage.

**Dry Hills Property:** A total of 96 lode claims (about 1,920 acres) in Eureka County, Nevada comprise the Dry Hills Property. It is located in the Dry Hills, about 20 miles southwest of Carlin, Nevada. The property is underlain by Jurassic volcanic rocks and volcanic sediments are cut by mineralized northeast-trending fracture zones.

**Golconda Property:** A total of 108 lode claims (about 2,160 acres) in Humboldt County, Nevada comprise the Golconda Property. It is located in Rock Creek Valley, about 12 miles east of Winnemucca, Nevada and near the intersection of the Getchell Trend and the north end of the Battle Mountain-Eureka Trend.. Mineralized Paleozoic formations and mineralized fault structures are projected into the Golconda Property, but are covered by younger alluvium and basalt.

**Horseshoe Basin Property:** A total of 50 lode claims (about 1,000 acres) in Lander County, Nevada comprise the Horseshoe Basin Property. It is located in the Fish Creek Mountains about 30 miles south of Battle Mountain, Nevada. Triassic sedimentary rocks are intruded by both Jurassic and Tertiary igneous intrusive rocks, producing precious metal-bearing skarn. At Horseshoe Basin, an erosional window exposes various intrusive rocks that contain alteration and mineralization with quartz veins containing values to as high as 0.35 ounces of gold per ton.

**Marr Property:** A total of 93 lode claims (about 1,840 acres) in Lander County, Nevada comprise the Marr Property. It is located between the Fish Creek Mountains and the Ravenswood Mountains about 50 miles southwest of Battle Mountain, Nevada. The property is along the Western Nevada Rift. At Marr, northeast-trending fractures control a 2 mile long and 3,000 feet wide system of mineralization and alteration in the form of silicification and brecciation with surface grab samples reported as high 0.10 ounce per ton gold.



## Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

**North Battle Mountain Property:** A total of 73 lode claims (about 1,460 acres) in Lander County, Nevada comprise the North Battle Mountain Property. It is located in the Sheep Creek Range, about 4 miles northeast of Battle Mountain, Nevada, along the northern extension of the Battle Mountain-Eureka Trend. Paleozoic rocks of the upper plate of the Roberts Mountains Thrust Fault exposed in erosional windows through shallow alluvium are mineralized on the property.

**South Lone Mountain Property:** A total of 140 lode claims (about 2,800 acres) in Eureka County, Nevada comprise the South Lone Mountain Property. It is located on the west flank of the Mountain Boy Range in Antelope Valley about 15 miles southwest of Eureka, Nevada. The property is covered by alluvium that obscures Paleozoic sedimentary rocks. A Jurassic igneous intrusive body is exposed in the nearby hills to the east. Faults that are an extension of the Cortez Fault traverse the property.

**Stargo Property:** A total of 257 lode claims (about 5,140 acres) in Nye County, Nevada comprise the Stargo Property. It is located in the Monitor Range about 45 miles southwest of Eureka, Nevada and about 20 miles west of the Northumberland Mine. The geologic setting at Stargo is similar to Northumberland with alteration and mineralization occurring in the Lower Plate/Eastern "carbonate" assemblage of the Roberts Mountains Thrust Fault and near altered intrusive igneous bodies. At Stargo alteration and mineralization in the form of jasperoid is widespread throughout the carbonate assemblage, near altered igneous intrusive bodies, and along faults.

**Walti Property:** A total of 402 lode claims (about 8,040 acres) in Eureka and Lander Counties, Nevada comprise the Walti Property. It is located in Grass Valley about 62 miles south of Carlin, Nevada. An intersection of important fault structures is covered by alluvium on the Walti Property. Regional published geophysics suggests the presence of an intrusive igneous rock body coincident with the intersection. Paleozoic rocks that host gold deposits about 12 miles north are believed to exist beneath the alluvium.

**West Whistler Property:** A total of 103 lode claims (about 2,060 acres) in Eureka County, Nevada comprise the West Whistler Property. It is located on the west flank of Whistler Mountain about 10 miles northwest of Eureka, Nevada. Alteration and mineralization in the form of jasperoid is developed in rocks of the Overlap assemblage of the Roberts Mountains Thrust Fault on the flanks of an intrusive igneous body.

**INTELLECTUAL PROPERTY.** We use the trade names of Tornado Gold International Corp. We also own the domain name and content of our website, located at [www.tornadogold.com](http://www.tornadogold.com). Our website costs \$17 per month, though occasionally higher costs are incurred when we add information to our website. We depend on our management's expertise in assessing potential property acquisitions, and as such, our business depends on that proprietary information.

**COMPETITION.** In the United States there are numerous mining and exploration companies, both big and small. All of these mining companies are seeking properties of merit and availability of funds. We will have to compete against such companies to acquire the funds to develop our mineral claims. The availability of funds for exploration is sometimes limited and we may find it difficult to compete with larger and more well-known companies for capital. Even though we have the right to the minerals on our claims there is no guarantee we will be able to raise sufficient funds in the future to maintain our mineral claims in good standing. Therefore, if we do not have sufficient funds for exploration our claims might lapse and be staked by other mining interests. We might be forced to seek a joint venture partner to assist in the exploration of our mineral claims. In this case, there is the possibility that we might not be able to pay our proportionate share of the exploration costs and might be diluted to an insignificant carried interest.

Even when a commercial viable ore body is discovered, there is no guarantee competition in refining the ore will not exist. Other companies may have long term contracts with refining companies thereby inhibiting our ability to process our ore and eventually market it. At this point in time we do not have any contractual agreements to refine any potential ore we might discover on our mineral claims.

The exploration business is highly competitive and highly fragmented, dominated by both large and small mining companies. Success will largely depend on our ability to attract talent from the mining field and our ability to fund our operations. There is no assurance that our mineral expansion plans will be realized.

GOVERNMENT REGULATION. We are committed to complying and, to our knowledge, are in compliance with all governmental and environmental regulations. Permits from a variety of regulatory authorities are required for many aspects of mine operation and reclamation. We cannot predict the extent to which future legislation and regulation could cause additional expense, capital expenditures, restrictions, and delays in the exploration of our properties.

Our activities are not only subject to extensive federal, state and local regulations controlling the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the exploration of our properties, the extent of which cannot be predicted. Permits may also be required from a variety of regulatory authorities for many aspects of mine operation and reclamation. In the context of environmental permitting, including the approval of reclamation plans, we must comply with known standards, existing laws and regulations that may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. We are not presently aware of any specific material environmental constraint affecting our properties that would preclude the economic development or operation of any specific property.

It is reasonable to expect that compliance with environmental regulations will increase our costs. Such compliance may include feasibility studies on the surface impact of our proposed exploration operations; costs associated with minimizing surface impact; water treatment and protection; reclamation activities, including rehabilitation of various sites; on-going efforts at alleviating the mining impact on wildlife; and permits or bonds as may be required to ensure our compliance with applicable regulations. It is possible that the costs and delays associated with such compliance could become so prohibitive that we may decide not to proceed with exploration on any of our mineral properties.

We are prepared to engage professionals, if necessary, to ensure regulatory compliance but in the near term expect our activities to require minimal regulatory oversight. If we expand the scope of our activities in the future it is reasonable to expect expenditures on compliance to rise.

**OUR RESEARCH AND DEVELOPMENT.** We are not currently conducting any research and development activities, other than property explorations and assessments. None of these costs are borne by our customers, however.

**EMPLOYEES.** We do not have any employees other than our officer, Dr. Abbott, our President and Chief Executive Officer. We believe that our relations with this employee are good. We have not finalized the agreement we have with Mr. Drazenovic, our new Chief Financial Officer, but pay him a salary. We are not a party to any collective bargaining agreements. We do not compensate our directors, Mr. Pescio and Mr. Keith, as employees, but have agreements with them and with Dr. Abbott to issue stock options for their services as our directors. We pay our officers and directors for their mining exploration and administrative services to us as consultants, not as employees, and we also have an assistant who is being paid through a staffing agency.

**FACILITIES.** As of December 31, 2005, our executive, administrative and operating offices were located at 8600 Technology Way, Suite 118, Reno NV 89521.

**EXPLORATION PROCESS AND PLAN.** The Company begins its exploration process by attempting to understand the regional geology of its prospects and by progressing through the district-wide geologic setting. Eventually, the Company graduates to the geologic setting of each individual proposed drill hole. Before drilling, the Company attempts to predict its chances of success, and it will drill only sites that it believes have the best relative chance of encountering a gold deposit. Typically, the Company will engage in integrated surface geological, geochemical, and geophysical analysis before it begins drilling. Some of the specific methods that the Company will engage in include magmatic affinity, pluton vectoring, kinetic structural analysis, and metal dispersion.

To date, the Company has 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 its initial exploration program, the Company will need to spend significant funds to complete further in-depth drilling and engineering studies before it can identify whether or not it has a commercially viable mineral deposit.

Future funding levels will also determine the extent and number of properties that it will explore. No certainty can be ascertained on its overall exploration program until significant funding levels have been achieved. While the Company maintains limited administrative overhead, the Company will pursue equity financings to pursue future exploration programs.

While most properties will be examined and sampled, the Company will also analyze the results of all previous work that is publicly available for the properties. A ranking system will enable the Company to decide which properties will undergo detailed work and drill at the earliest opportunity. The remaining properties will either be made available for farm-out or for development at a later date, or will be dropped all-together from further work.

The following is a list of projects on which, as of the date of this Annual Report, the Company has decided to focus during the next 12 months. The prioritization of the projects, and the projects themselves, is expected to change depending on funding levels and preliminary sampling results:

Jack Creek

The Company intends 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 2006, which, in aggregate, is expected to cost up to approximately \$100,000.

## Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

The Jack Creek property comprises a total of approximately 6,000 acres. 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, the Company acquired an option for 53 additional claims 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. 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. Currently, however, the Company does 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 in 2006 will focus on delineating drill targets. The property will be prospected by sampling and analysis of mineralized rock. The Company expects to perform a kinematic structural analysis of the property and expects 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 end of 2006, the Company will have identified targets for permitting and drilling. The Company has 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 2006. As of the filing of this report, the Company has budgeted nearly \$50,000 for this program.

Work 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. Further work could discover certain structures that host shallow oxide gold mineralization under alluvial cover. Such finds would inevitably increase the amount spent on further exploration and drilling programs on the property.

### HMD

Exploration on this property will be directed toward delineating low-risk drill targets. The Company currently expects that it 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. The Company intends to supplement these studies with soil sampling, and the resulting drill targets will be sharpened by detailed IP surveys. By the Spring of 2006, the Company hopes to have targets prepared for permitting and drilling. The Company expects 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 the Company has raised sufficient funds, permitting and drilling are planned for Spring 2006. The Company expects that this program

will require up to approximately \$50,000 for the next 12 months.

Other Properties

The Company hopes 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. The Company believes 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.

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.

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

Currently, the Company has no research and development plans and no intention to purchase or sell plant or significant equipment.

**ITEM 2. DESCRIPTION OF PROPERTY.**

PROPERTY HELD BY US. As of the dates specified in the following table, we held the following property:

PROPERTY	DECEMBER 31, 2005	DECEMBER 31, 2004
Cash	\$ 64,333	\$ 53,141
Other current asset	\$ 6,395	\$ 1,395
Mining claims	\$ 524,333	\$ 122,151

A detailed description of our mining claims is included in Item 1.

OUR FACILITIES. As of December 31, 2005, our offices our executive, administrative and operating offices were located at 8600 Technology Way, Suite 118, Reno NV 89521. Our office is leased in six-month terms that automatically renew, at a cost of \$1,395 per month, and consists of office space that is approximately 258 square feet. Our current lease term expires October 31, 2006, and automatically renews at that point. We believe these facilities are adequate for our current needs and that alternate facilities on similar terms would be readily available if needed.

**ITEM 3. LEGAL PROCEEDINGS.**

There are no legal actions pending against us nor are any legal actions contemplated by us at this time.

**ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS**

Not applicable.

**PART II****ITEM 5. MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

**REPORTS TO SECURITY HOLDERS.** We are a reporting company with the Securities and Exchange Commission, or SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 4100 F. Street NE, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

**COMMON STOCK.** We are authorized to issue 100,000,000 shares of common stock. We have no other classes of stock authorized.

As of March 30, 2006, there were 28,791,726 shares of our common stock were issued and outstanding held by 23 record holders of our common stock.

**PRICES OF COMMON STOCK.** Our common stock is quoted on the OTC Bulletin Board and in the Pink Sheets under the trading symbol TOGI. During the first half of our 2005 fiscal year, there were no trading days during which reported trading volume of our common stock exceeded 500 shares per day. During the third quarter of our 2005 fiscal year, reported trading volume of our common stock in excess of 10,000 shares per trading day occurred less than 15 days. During the fourth quarter of our 2005 fiscal year, the average daily reported trading volume of our common stock increased materially. Because reported trading volume for securities that are quoted on the OTC Bulletin Board or in the Pink Sheets does not necessarily represent actual transactions, it is generally regarded as less than accurate and typically overstated. Consequently, it is our belief that the shares of our common stock were relatively illiquid during the first three quarters of our 2005 fiscal year. Prior to the commencement and maintenance of a more active trading market, which, by virtue of the reported trading volume, we believe may have commenced in the fourth quarter of our 2005 fiscal year, we believe that a more reliable indicator of the value of our common stock would have been the value at which we could have sold our securities to an unrelated third party in one or more private placements.

Following is information about the range of high and low bid prices for our common stock for each fiscal quarter since our stock commenced trading in mid-December 2005 on the OTCBB. Our shares are dually quoted on both the Pink Sheets and OTCBB. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

QUARTER ENDED	APPROX. CLOSING PRICE*	HIGH BID QUOTATION	LOW BID QUOTATION
03/31/05	\$ 0.88		
06/30/05	\$ 0.52		
09/30/05	\$ 0.84		
12/31/05		\$ 0.75	\$ 0.70
03/31/06		\$ 0.60	\$ 0.55

\*High and low bid quotation data is not available for activity prior to December 2005

**OPTIONS.** We have a total of 210,000 exercisable options to purchase shares of our common stock currently outstanding, of which 60,000 were granted in 2003, and 150,000 were granted in 2005.

We have 150,000 options outstanding to purchase shares of our common stock at \$0.75 per share to Access Capital, a consultant, pursuant to a consulting service agreement. Of these 150,000 options, 25,000 options were granted in September 2005 and 125,000 options were granted in December 2005. These 150,000 options expire September 28,

2010.

We have 60,000 options outstanding to purchase shares of our common stock at \$0.15 per share. These options were granted to our former management and expire in March 2014.

**WARRANTS.** We have 625,000 warrants outstanding to purchase shares of our common stock at \$0.85 per share. These warrants expire in December 2010.

**RECENT SALES OF UNREGISTERED SECURITIES.** In April 2005, we issued 1,104,271 (or 1,325,126 post-split) shares of our common stock to New Regent Industries, a noteholder, in settlement of promissory notes totaling \$1,025,000 plus accrued interest at the rate of \$1.00 per share. In December 2005, we sold 625,000 units in a private placement at a price of \$0.80 per unit to an investor, Green Shoe Investments Inc., who is also a note holder. Each unit consisted of one share of our common stock and a warrant to purchase one share of our common stock at \$0.85 per share. The warrants expire in December 2010.

We have 150,000 options outstanding to purchase shares of our common stock at \$0.75 per share to Access Capital, a consultant, pursuant to a consulting service agreement. Of these 150,000 options, 25,000 options were granted in September 2005 and 125,000 options were granted in December 2005. These 150,000 options expire September 28, 2010.

In March 2006, we executed convertible promissory notes with Green Shoe Investments Inc. for several amounts: \$149,857.64, for funds received January 13, 2006; \$249,980.00, for funds received February 8, 2006; \$250,000.00 for funds received on February 16, 2006. These notes bear interest at 8% per annum and are convertible at our sole discretion on or before the due date, December 31, 2006, at a rate of \$1.00 per share.

These instruments were all issued in reliance on that exemption from registration under Regulation S, as a transaction not involving any public offering to a non-U.S. investor.

**DIVIDENDS.** There have been no cash dividends declared on our common stock. Dividends are declared at the sole discretion of our Board of Directors. Each shareholder of our common stock is entitled to a pro rata share of cash distributions made to shareholders, including dividend payments. The holders of our common stock are entitled to one vote for each share of record on all matters to be voted on by shareholders. There is no cumulative voting with respect to the election of our directors or any other matter. Therefore, the holders of more than 50% of the shares voted for the election of those directors can elect all of the directors. The holders of our common stock are entitled to receive dividends when, as and if declared by our Board of Directors from funds legally available therefore. Cash dividends are at the sole discretion of our Board of Directors. In the event of our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in all assets remaining available for distribution to them after payment of our liabilities and after provision has been made for each class of stock, if any, having any preference in relation to our common stock. Holders of shares of our common stock have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to our common stock.

**EQUITY COMPENSATION PLANS.** Our Board of Directors adopted our 2003 Incentive and Nonstatutory Stock Option Plan (the "2003 Stock Option Plan") on May 1, 2003. Under the 2003 Stock Option Plan, 5,000,000 shares of common stock were authorized for issuance as Incentive Stock Options or Nonstatutory Stock Options. There were 2,500,000 options were originally issued under the 2003 Stock Option Plan. However, in connection with the Transfer and Sale to our new management as described herein, the 2003 Stock Option Plan was terminated and all options issued under the stock option plan shall be cancelled except for 60,000 stock options which remain outstanding under this plan.

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

The following information applies as of December 31, 2005.\*\*

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS(b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))	
Equity compensation plans approved by security holders	60,000	\$ .15		n/a
Equity compensation plans not approved by security holders	0		n/a	n/a
Total	60,000	\$ .15		n/a

\*\* the table above does not include the stock options described below, which have not been granted.

We had agreed to grant, but ultimately did not grant, options to Dr. Abbott and Messrs. Pescio and Keith, which, if consummated, would have had the following attributes:

Earl W. Abbott would receive up to 500,000 options, of which 250,000 would vest on December 15, 2005, at an exercise price of \$1.00 per share and another 250,000, which would vest when we acquire a mining project with a drill-indicated resource of at least 1.5 million ounces of gold or gold-equivalent and if financing can be arranged; the exercise price of these options would be \$1.00 per share.

Stanley B. Keith and Carl A. Pescio would each receive up to 250,000 options, of which 125,000 would vest on December 15, 2005 at an exercise price of \$1.00 per share and 125,000 which would vest according to the same mining project schedule as above.

As of March 30, 2006, none of these options had been granted, and this 2005 Plan has not been ratified by our shareholders, which may affect their status as qualified options.

**PENNY STOCK REGULATION.** Shares of our common stock are subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks". Penny stocks are generally equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk disclosure document prepared by the Securities and Exchange Commission, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

- a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such such duties or other requirements of securities' laws;
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the the "bid" and "ask" price;
- a toll-free telephone number for inquiries on disciplinary actions;
- definitions of significant terms in the disclosure document or in the conductof trading in penny stocks; and
- such other information and is in such form(including language, type, size and format), as the Securities and Exchange Commission shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
- monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those 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 acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitability statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules.

**DIVIDENDS.** We have not paid any cash dividends on our Common Stock since our inception and we do not anticipate or contemplate paying cash dividends in the foreseeable future.

**STOCK SPLITS.** On April 13, 2004, our Board of Directors approved a 50 for 1 stock split of our issued and outstanding common stock which was effectuated through a dividend of 49 shares for each share of common stock outstanding as of the record date. Our intent of the stock split was to increase the marketability and liquidity of its common stock and hopefully increase the value of its common stock. The dividend was payable on April 27, 2004 for shareholders of record on April 26, 2004. After the split, the total number of our issued and outstanding shares of common stock was 6,600,000 shares. Our common stock continues to be \$0.001 par value. Fractional shares were rounded upward.

On August 18, 2004, our Board of Directors approved a 6.81818 for 1 stock split of our issued and outstanding common stock which was effectuated through a dividend of 5.81818 shares for each share of common stock outstanding as of the record date. Our intent of the stock split was to increase the marketability and liquidity of our common stock and hopefully increase the value of its common stock. The dividend was payable on August 31, 2004 for shareholders of record on August 30, 2004. After the split, the total number of our issued and outstanding shares of common stock was 45,012,000 shares. Our common stock continues to be \$0.001 par value. Fractional shares were rounded upward. This action was facilitated by the change to our Articles of Incorporation, increasing the our authorized stock to 100,000,000 shares of common stock, which was given effect on August 25, 2004 by filing a certificate of amendment with the Nevada Secretary of State. Subsequent to this August 2004 split and prior to the May 2005 split, on April 15, 2005, we redeemed 22,644,000 shares belonging to our management.

On May 16, 2005, we authorized a 1.2 for 1 stock split of our outstanding common stock which was effectuated through a dividend of 0.2 shares for each share of common stock outstanding as of the record date. Our intent with the stock split was to increase the marketability and liquidity of our common stock and to hopefully increase the value of our common stock. The dividend was payable on May 31, 2005 for shareholders of record on May 27, 2005. After the split, the total number of our issued and outstanding shares of common stock was 28,166,726 shares. Our common stock will continue to be \$0.001 par value. Fractional shares were rounded upward.

## **ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION.**

THIS FOLLOWING INFORMATION SPECIFIES CERTAIN FORWARD-LOOKING STATEMENTS OF MANAGEMENT OF THE COMPANY. FORWARD-LOOKING STATEMENTS ARE STATEMENTS THAT ESTIMATE THE HAPPENING OF FUTURE EVENTS ARE NOT BASED ON HISTORICAL FACT. FORWARD-LOOKING STATEMENTS MAY BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY, SUCH AS "MAY", "SHALL", "COULD", "EXPECT", "ESTIMATE", "ANTICIPATE", "PREDICT", "PROBABLE", "POSSIBLE", "SHOULD", "CONTINUE", OR SIMILAR TERMS, VARIATIONS OF THOSE TERMS OR THE NEGATIVE OF THOSE TERMS. THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION HAVE BEEN COMPILED BY OUR MANAGEMENT ON THE BASIS OF ASSUMPTIONS MADE BY MANAGEMENT AND CONSIDERED BY MANAGEMENT TO BE REASONABLE. OUR FUTURE OPERATING RESULTS, HOWEVER, ARE IMPOSSIBLE TO PREDICT AND NO REPRESENTATION, GUARANTY, OR WARRANTY IS TO BE INFERRED FROM THOSE

FORWARD-LOOKING STATEMENTS.

THE ASSUMPTIONS USED FOR PURPOSES OF THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION REPRESENT ESTIMATES OF FUTURE EVENTS AND ARE SUBJECT TO UNCERTAINTY AS TO POSSIBLE CHANGES IN ECONOMIC, LEGISLATIVE, INDUSTRY, AND OTHER CIRCUMSTANCES. AS A RESULT, THE IDENTIFICATION AND INTERPRETATION OF DATA AND OTHER INFORMATION AND THEIR USE IN DEVELOPING AND SELECTING ASSUMPTIONS FROM AND AMONG REASONABLE ALTERNATIVES REQUIRE THE EXERCISE OF JUDGMENT. TO THE EXTENT THAT THE ASSUMED EVENTS DO NOT OCCUR, THE OUTCOME MAY VARY SUBSTANTIALLY FROM ANTICIPATED OR PROJECTED RESULTS, AND, ACCORDINGLY, NO OPINION IS EXPRESSED ON THE ACHIEVABILITY OF THOSE FORWARD-LOOKING STATEMENTS. NO ASSURANCE CAN BE GIVEN THAT ANY OF THE ASSUMPTIONS RELATING TO THE FORWARD-LOOKING STATEMENTS SPECIFIED IN THE FOLLOWING INFORMATION ARE ACCURATE, AND WE ASSUME NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS.

## **CRITICAL ACCOUNTING POLICY AND ESTIMATES.**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations 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, primarily allowance for doubtful accounts receivables, accruals for other costs, and the classification of net operating loss and tax credit carry forwards between current and long-term assets. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the financial statements included in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005.

It is our policy to initially capitalize all acquisition costs associated with our mining property including advance lease payments and other such acquisition costs. 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.

**OVERVIEW.** We were incorporated in Nevada on October 8, 2001 in order to serve as a holding company for Salty's Warehouse, Inc., which sells consumer electronics products and other name brand consumer products over the Internet.

In March 2004, pursuant to a Plan of Reorganization and Acquisition, we disposed of our operating asset, Salty's Warehouse, Inc., when our prior management departed. Under our new management, we undertook a different business focus: the identification and acquisition of properties exhibiting the potential for gold mining operations by others. On July 7, 2004, we changed our name from Nucotec, Inc. to Tornado Gold International Corp. to reflect our new business focus. The name change was approved on May 12, 2004, by unanimous approval of our Board of Directors.

**LIQUIDITY AND CAPITAL RESOURCES.** We had cash and cash equivalents totaling \$64,333 as of December 31, 2005 and prepaid expenses of \$6,395, making our total current assets \$70,728. We also had mining assets of 524,333, making our total assets \$595,061 as of December 31, 2005. Our current liabilities as of December 31, 2005 were \$456,966, which was represented by accounts payable of \$13,301 and notes payable of \$443,665 including accrued interest of \$12,687. We believe that our available cash and cash equivalents are not sufficient to pay our day-to-day expenditures. However, our officers and directors have committed to accrue, partially or completely, their compensation for the balance of the fiscal year or to refrain from collecting ordinary business expenses to allow us to pay our office-related and legal and accounting expenses, so that we might be able to continue operations until we are able to obtain additional funding through other sources at levels to implement our business plan, as to the availability of which additional funding there can be no assurance. We may also need to fund our operations through equity or debt financing, though there is no guarantee we will be able to do so.

As of December 31, 2005 we had a net working capital deficit of \$386,238 as compared to \$981,013 of December 31, 2004. In March 2004, we borrowed \$650,000 from an unrelated third party pursuant to a promissory note that was due January 5, 2005, and thereafter extended to April 15, 2005, which bears interest at 8% per annum. In addition, on April 27, 2004, we borrowed an additional \$225,000 from the same unrelated third party pursuant to a promissory note, which bears interest at the rate of 8% per annum and is due upon demand. In November 2004, we borrowed \$100,000 from the same unrelated third party, pursuant to a promissory note executed in February 2005, which bears interest at the rate of 8% per annum and is due April 15, 2005. On April 15, 2005, we converted these notes to shares of our common stock at \$1.00 per share, which was slightly in excess of the market price per share on such date, to the extent that the market price of our then-thinly traded common stock bore any relation to the value of our shares; a total of \$1,104,271, represented by \$1,025,000 in principal and \$79,271 as accrued interest, converted to 1,104,271 pre-split shares of our common stock (one share for every dollar owed).

On July 1, 2005, we entered into a promissory note with another unrelated third party, Gatinnara Holdings, for \$100,000 due December 31, 2005 and bearing 8% per annum interest. This note was extended to December 31, 2006. From August through October 2005, we executed a series of promissory notes with yet another unrelated third party, Green Shoe Investments Inc., for funds as follows: August 9, 2005 for \$150,000; August 26, 2005 for \$31,000; September 15, 2005 for \$50,000; and October 5, 2005 for \$99,977.50. Each of these notes was due December 31, 2005 and extended to December 31, 2006 and bears interest at 8% per annum. We use these funds for working capital and payment on our property leases.

In December 2005, we sold 625,000 units to Green Shoe Investments Inc., for approximately \$500,000 or \$0.80 per unit; each unit consisted of one share of our common stock and one warrant to purchase a share of our common stock for \$0.85. These units were sold in a private placement.

Subsequent to the year ended December 31, 2005, we executed another series of promissory notes with Green Shoe Investments Inc., as follows: \$149,857.64 received on January 13, 2006; \$249,980.000 received on February 8, 2006; and \$250,000.00 received on February 16, 2006. These are convertible promissory notes bearing interest at 8% per annum, and convertible to shares of our common stock at the rate of \$1.00 per share, at the discretion of our management. We use these funds for working capital and payment on our property leases.

Net cash used in operating activities was \$223,645 for the year ended December 31, 2005 compared to \$199,435 for the year ended December 31, 2004.

Since we have no current source of revenue, our only source of cash is from the issuance of debt or equity instruments.

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 successfully generate significant revenues or achieve a level of profits which will permit us to stay in business. Since March 2004, when we had a change of management and undertook a different business focus, which is the identification and acquisition of potential gold mining properties for resale to others, we no source of revenues for the foreseeable future. However, due to the change in our business plan, we must raise additional capital in order to have resources sufficient to fund all or our general and administrative expenses for the next twelve months.

Since we have as no established source of material revenue and have incurred a net loss from continuing operations of \$281,224, and at December 31, 2005 had a negative working capital of \$386,238 and had an accumulated deficit of \$1,203,983, there is a substantial doubt about our ability to continue as a going concern as noted by our independent auditor.

## **PLAN OF OPERATION.**

The Company begins its exploration process by attempting to understand the regional geology of its prospects and by progressing through the district-wide geologic setting. Eventually, the Company graduates to the geologic setting of each individual proposed drill hole. Before drilling, the Company attempts to predict its chances of success, and it will drill only sites that it believes have the best relative chance of encountering a gold deposit. Typically, the Company will engage in integrated surface geological, geochemical, and geophysical analysis before it begins drilling. Some of the specific methods that the Company will engage in include magmatic affinity, pluton vectoring, kinetic structural analysis, and metal dispersion.

To date, the Company has 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 its initial exploration program, the Company will need to spend significant funds to complete further in-depth drilling and engineering studies before it can identify whether or not it has a commercially viable mineral deposit.

Future funding levels will also determine the extent and number of properties that it will explore. No certainty can be ascertained on its overall exploration program until significant funding levels have been achieved. While the Company maintains limited administrative overhead, the Company will pursue equity financings to pursue future exploration programs.

While most properties will be examined and sampled, the Company will also analyze the results of all previous work that is publicly available for the properties. A ranking system will enable the Company to decide which properties will undergo detailed work and drill at the earliest opportunity. The remaining properties will either be made available for farm-out or for development at a later date, or will be dropped all-together from further work.

The following is a list of projects on which, as of the date of this Annual Report, the Company has decided to focus during the next 12 months. The prioritization of the projects, and the projects themselves, is expected to change depending on funding levels and preliminary sampling results:

#### Jack Creek

The Company intends 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 2006, which, in aggregate, is expected to cost up to approximately \$100,000.

The Jack Creek property comprises a total of approximately 6,000 acres. 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, the Company acquired an option for 53 additional claims 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. 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. Currently, however, the Company does 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 in 2006 will focus on delineating drill targets. The property will be prospected by sampling and analysis of mineralized rock. The Company expects to perform a kinematic structural analysis of the property and expects 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 end of 2006, the Company will have identified targets for permitting and drilling. The Company has 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 2006. As of the filing of this report, the Company has budgeted nearly \$50,000 for this program.

Work 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. Further work could discover certain structures that host shallow oxide gold mineralization under alluvial cover. Such finds would inevitably increase the amount spent on further exploration and drilling programs on the property.

#### HMD

Exploration on this property will be directed toward delineating low-risk drill targets. The Company currently expects that it 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. The Company intends to supplement these studies with soil sampling, and the resulting drill targets will be sharpened by detailed IP surveys. By the Spring of 2006, the Company hopes to have targets prepared for permitting and drilling. The Company expects 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 the Company has raised sufficient funds, permitting and drilling are planned for Spring 2006. The Company expects that this program will require up to approximately \$50,000 for the next 12 months.

### Other Properties

The Company hopes 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. The Company believes 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.

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.

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

Currently, the Company has no research and development plans and no intention to purchase or sell plant or significant equipment.

### **RESULTS OF OPERATIONS.**

#### **FOR THE YEAR ENDED DECEMBER 31, 2005 COMPARED TO THE YEAR ENDED DECEMBER 31, 2004.**

**REVENUE.** We have realized no revenues for the year ended December 31, 2005. We will be unable to generate revenues until we are able to resell one of the properties we have acquired, or may in the future acquire, if such property exhibits the potential for gold mining operations, which would make it attractive for purchase by a potential operator. For the year ended December 31, 2004, we also had no revenues.

**OPERATING EXPENSES.** For the year ended December 31, 2005, our total operating expenses were \$580,934 of which \$404,543 was specifically related to mining exploration and \$158,522 related to general and administrative expenses. In addition, we recognized compensation expense in 2005 of \$17,869 in connection with the granting of options to purchase 150,000 shares of our common stock. During the year ended December 31, 2005, we accrued \$35,925 in interest expense on notes payable totaling \$443,665. No interest has been paid on these notes.

Of the \$404,543 in expenses that we incurred in our mining operations during the year ended December 31, 2005, \$61,775 was paid to Dr. Abbott, our president and one of our directors for his technical consulting services to us, \$5,744 was paid to Mr. Pescio and \$1,389 paid to Mr. Keith, our other directors. The remaining \$335,635 was paid to the Bureau of Land Management for the annual leasing of our properties. Of the \$158,522 that we incurred in general and administrative expenses, \$28,175 was paid to Dr. Abbott, our president for management services and \$1,960 was paid to Mr. Keith for administrative expenses, \$47,877 was incurred for accounting and legal professional services relating to the preparation and filing our reporting obligations, rent expense of \$16,742, investor relations expense of

\$19,084, office expenses of \$7,008, telephone of \$1,034 and travel expenses which were reimbursed to Dr. Abbott totaling \$25,609 and \$579 to Mr. Keith.

This is in comparison to the year ended December 31, 2004: of the \$51,388 that we incurred in our mining operations \$26,763 related to geological studies of which \$17,482 was paid to our President for his technical consulting services to us. The remaining \$24,625 was paid to the Bureau of Land Management for the annual leasing of our properties. Of the \$147,931 that we incurred in general and administrative expenses, \$18,786 was paid to our president for management services, \$102,820 was incurred for accounting and legal professional services relating to the preparation and filing our application for listing on the Over the Counter Bulletin Board and reporting obligations, rent expense of \$13,095, and travel expenses which were reimbursed to our President totaling \$8,768. Also in 2004, we recognized compensation expense of \$4,540 in connection with the granting of options to our former management to purchase 60,000 shares of our common stock.

The increase in our operating expenses, and loss from operations and net loss is due to our acquisitions of additional property interests.

NET INCOME (LOSS). Our loss from operations for the year ended December 31, 2005 totaled \$580,934. With our interest expense of \$35,925, our net loss was \$616,859. This is in comparison to the year ended December 31, 2004, where we had operating expenses of \$203,859. We also had \$57,873 in interest expenses which we incurred during the year ended December 31, 2004. Loss from discontinued operations during the year ended December 31, 2004 amounted to \$871, making our net loss \$260,861.

Our expenses and net losses for the year ended December 31, 2005 are higher than those for the same period ended in 2004 due to increased property acquisitions and exploration under our new business plan. In March 2004, we underwent a change of management; our prior management received our former operating subsidiary, and our new management has acquired interests in properties exhibiting the potential for mining operations as part of our new business plan, which accounts for the changes in our operating expenses. We anticipate that we will continue to incur significant general and administrative expenses, but hope to generate income as we acquire property interests, perform our geological analyses and sell or lease those property interests to others.

OUR PLAN OF OPERATIONS FOR THE NEXT TWELVE MONTHS. During the year ended December 31, 2005, we acquired ten mineral properties in Nevada from Carl Pescio (a non-employee director) for \$140,000 which in the aggregate represent approximately 1,600 claims. Each of the ten properties obligated us to pay advance royalties of \$35,000 per property (i.e., \$350,000 in the aggregate), and \$50,000 upon execution of the letter agreement. Management believes that these acquisitions will provide us greater opportunities for exploration.

During the last quarter in 2005, we issued five promissory notes totaling in aggregate \$430,977.50. Each promissory note carried terms of 8% annual interest and conversion rights at the discretion of management. Earlier in the year, we converted our outstanding notes payable as of December 31, 2005 to New Regent Industries Limited 1,104,271 pre-split shares of our common stock on a one-for-one basis.

In addition, we received approximately \$500,000 in the last quarter of 2005. These funds represent a private placement purchase of 625,000 units at US\$.80 per unit by Green Shoe Investments, Inc. The units issued to Green Shoe Investments Inc. included 625,000 warrants, each warrant allows Green Shoe Investments, Inc., to purchase one share of our common stock at \$0.85; those warrants expire in 5 years.

Subsequent to the December 31, 2005 year-end, we issued three convertible promissory notes to Green Shoe Investments Inc. for an aggregate total of approximately \$649,898. The funds received are intended for general working capital purposes and holding costs for properties we acquired. The amounts of the notes are as follows: (1) \$149,857.64 for funds received January 13, 2006, (2) \$249,980.00 received February 8, 2006, and (3) \$250,000.00 for funds received February 16, 2006. These notes are all due December 31, 2006, bear interest at 8% and are convertible at the discretion of the board to shares of our common stock at \$1.00 per share.

During the quarter ended March 31, 2006, we made advance lease payments of \$550,000 to Mr. Pescio on our mining claims.

In anticipation of further exploration activity and hence financing requirements, we hired a new Chief Financial Officer. Effective March 28, 2006, the Board of Directors accepted the resignation of Earl W. Abbott as Chief Financial Officer (Dr. Abbott remains on as our President and CEO) and appointed George Drazenovic as our Chief Financial Officer.

With the acquisition of several mining properties in 2005 and the recent appointment of a new Chief Financial Officer, we believe we are in a more favorable position to pursue further exploration activities over the next twelve months. However, it is management's opinion that we will require significant financial resources (approximately \$5,000,000)

to fully complete our intended exploration program.

We have a cash balance of \$64,333 as of December 31, 2005, and we believe we do not have adequate funds to satisfy our working capital requirements for the next twelve months. 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.

**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.

**ITEM 7. FINANCIAL STATEMENTS**

The financial statements required by Item 7 are presented in the following order:

**Tornado Gold International Corp.  
Financial Statements  
Years Ended December 31, 2005 and 2004**

**Contents**

	Page
<b><u>Report of Independent Registered Public Accounting Firm</u></b>	<b><u>F-1</u></b>
<b>Financial Statements:</b>	
<u>Balance Sheet as of December 31, 2005</u>	<u>F-2</u>
<u>Statements of Operations for the years ended December 31, 2005 and 2004, and from inception to December 31, 2005</u>	<u>F-3</u>
<u>Statement of Stockholders' Deficit for the years ended December 31, 2005 and 2004</u>	<u>F-4</u>
<u>Statements of Cash Flows for the years ended December 31, 2005 and 2004, and from inception to December 31, 2005</u>	<u>F-5</u>
<u>Notes to Financial Statements</u>	<u>F-6</u>

---

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To The Board of Directors and Stockholders of  
Tornado Gold International Corp. (formerly Nucotec, Inc.)  
Reno, Nevada

We have audited the accompanying balance sheet of Tornado Gold International, Inc. (formerly Nucotec, Inc.) as of December 31, 2005 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2005 and 2004 and during the Company's exploratory stage (March 19, 2004 through December 31, 2005). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tornado Gold International Corp. as of December 31, 2005, and the results of its operations and its cash flows for the years ended December 31, 2005 and 2004, and for the period from March 19, 2004 through December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the accompanying financial statements, the Company has no established source of material revenue, has incurred a net loss from continuing operations of \$616,859, and at December 31, 2005 had a negative working capital of \$386,238 and had an accumulated deficit of \$1,539,618, all of which raise a substantial doubt about its ability to continue as a going concern. Management's plan in regard to these matters is also discussed in Note 2. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Jonathon Reuben  
**Certified Public Accountants**

Torrance, California  
March 31, 2006

**Tornado Gold International Corp.**  
**Balance Sheet**

**Tornado Gold International Corp.**  
**(formerly Nucotec, Inc.)**  
**(An Exploratory Stage Company)**  
**Balance Sheet**

	<b>December 31, 2005</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 64,333
Prepaid expenses	6,395
<b>TOTAL CURRENT ASSETS</b>	<b>70,728</b>
<b>MINING CLAIMS</b>	<b>524,333</b>
<b>TOTAL ASSETS</b>	<b>\$ 595,061</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 13,301
Notes payable (including accrued interest of \$12,687)	443,665
<b>TOTAL CURRENT LIABILITIES</b>	<b>456,966</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>
<b>STOCKHOLDERS' DEFICIT</b>	
Common stock; \$0.001 par value; 100,000,000 shares authorized; 28,791,726 shares issued and outstanding	28,792
Additional paid in capital	1,693,305
Accumulated deficit	(704,993)
Deficit accumulated during the exploratory stage	(878,591)
Subscription receivable	(418)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>138,095</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 595,061</b>

The accompanying notes are an integral part of these financial statements

**Tornado Gold International Corp.**  
**Statements of Operations**

**Tornado Gold International Corp.**  
**(formerly Nucotec, Inc.)**  
**(An Exploratory Stage Company)**  
**Statements of Operations**

	Years Ended		From
	December	December	March 19.
	31,	31,	2004
	2004	2005	through
			December
			31,
			2005
NET REVENUE	\$ -	\$ -	\$ -
<b>OPERATING EXPENSES</b>			
Compensation expense on option grant	4,540	17,869	22,409
Mining exploration expenses	51,388	404,543	455,931
General and administrative expenses	147,931	158,522	306,453
	203,859	580,934	784,793
LOSS FROM OPERATIONS	(203,859)	(580,934)	(784,793)
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense	(57,873)	(35,925)	(93,798)
TOTAL OTHER INCOME (EXPENSE)	(57,873)	(35,925)	(93,798)
LOSS BEFORE PROVISION FOR INCOME TAXES AND DISCONTINUED OPERATIONS	(261,732)	(616,859)	(878,591)
PROVISION FOR INCOME TAXES	-	-	-
NET LOSS FROM CONTINUING OPERATIONS	(261,732)	(616,859)	\$ (878,591)
<b>DISCONTINUED OPERATIONS:</b>			
Loss from operations of discontinued operations	871	-	
	871	-	
NET LOSS	\$ (260,861)	\$ (616,859)	
<b>NET LOSS PER SHARE - BASIC AND DILUTED</b>			
Continuing operations	\$ (0.00)	\$ (0.02)	
Discontinued operations	(0.00)	(0.02)	
	\$ (0.00)	\$ (0.02)	
<b>WEIGHTED AVERAGE COMMON EQUIVALENT</b>			
SHARES OUTSTANDING - BASIC AND DILUTED	573,790,330	35,582,682	

The accompanying notes are an integral part of these financial statements



**Tornado Gold International Corp.**  
**Statement of Stockholders' Equity (Deficit)**

**Tornado Gold International Corp.**  
**(formerly Nucotec, Inc.)**  
**(An Exploratory Stage Company)**  
**Consolidated Statement of Stockholders' Deficit**

**For the Years Ended December 31, 2005 and 2004**

		Common Stock		Amount	Additional	Accumulated	Deficit	Deficit	Accumulated	During the	Exploratory	Stage	Receiv
	Date	Pre-split	Shares	Post-Split		Paid-in	Deficit						
<b>Balance, December 31, 2003</b>		<b>6,076,000</b>	<b>2,486,299,200</b>	<b>\$ 2,486,299</b>	<b>\$</b>	<b>-</b>	<b>(\$ 2,574,457)</b>	<b>\$</b>	<b>-</b>	<b>\$</b>			
Redemption of shares for													
Saltys	3/19/04	(5,110,200)	(2,091,093,840)	(2,091,094)	-	-	2,087,402	-	-	-			
Redemption of shares for cash	3/19/04	(917,800)	(375,563,760)	(375,564)	-	-	(194,436)	-	-	-			
Issuance of shares for cash	3/19/04	84,000	34,372,800	34,373	-	-	(24,373)						
Fair value of options granted to consultants	3/19/04	-	-	-	4,540	-	-	-	-	-			
Gain on settlement of notes	4/15/04	-	-	-	49,309	-	-	-	-	-			
Net income (loss)		-	-	-	-	-	871	(261,732)					
<b>Balance, December 31, 2004</b>		<b>132,000</b>	<b>54,014,400</b>	<b>54,014</b>	<b>53,849</b>	<b>(704,993)</b>	<b>(261,732)</b>						
Conversion of notes payable and accrued interest													

into shares of common stock	4/15/05	1,104,271	1,325,126	1,325	1,102,946	-	-
Redemption of shares for cash	4/15/05	(79,685)	(27,172,800)	(27,172)	19,266	-	-
Issuance of shares for cash	12/13/05	625,000	625,000	625	499,375	-	-
Fair value of options granted to consultants	Various	-	-	-	17,869	-	-
Net loss		-	-	-	-	-	(616,859)
<b>Balance, December 31, 2005</b>		<b>1,781,586</b>	<b>28,791,726</b>	<b>\$ 28,792</b>	<b>\$ 1,693,305</b>	<b>(704,993)\$</b>	<b>(878,591)\$</b>

The accompanying notes are an integral part of these financial statements

**Tornado Gold International Corp.**  
**Statements of Cash Flows**

**Tornado Gold International Corp.**  
**(formerly Nucotec, Inc.)**  
**(An Exploratory Stage Company)**  
**Statements of Cash Flows**

	Years Ended		From
	December	December	March 19,
	31,	31,	2004
	2004	2005	through
			December
			31,
			2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (260,861)	\$ (616,859)	\$ (878,591)
Adjustment to reconcile net loss to net cash used in operating activities:			
Value of options/warrants granted for services	4,540	17,869	22,409
Changes in:			
Accounts receivable	52	-	-
Inventory	680	-	-
Prepaid expenses and other current assets	(1,395)	(5,000)	(1,395)
Accounts payable and accrued expenses	58,420	44,710	101,089
Net cash used in operating activities	(198,564)	(559,280)	(756,488)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of mining claims	(122,151)	(402,182)	(524,333)
Net cash used in investing activities	(122,151)	(402,182)	(524,333)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from notes payable	975,000	480,978	1,455,978
Payment on note payable, related party	(42,500)	-	(42,500)
Repurchase of shares of common stock	(570,000)	(7,906)	(577,906)
Proceeds from issuance of common stock	10,000	499,582	509,582
Transfer of Salty's Warehouse, Inc's cash balance at date of disposition	(6,068)	-	-
Net cash provided by financing activities	366,432	972,654	1,345,154
Net change in cash and cash equivalents	45,717	11,192	\$ 64,333
CASH AND CASH EQUIVALENTS, Beginning of year	7,424	53,141	
CASH AND CASH EQUIVALENTS, End of year	\$ 53,141	\$ 64,333	

SUPPLEMENTAL DISCLOSURES OF CASH FLOW  
INFORMATION:

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

The accompanying notes are an integral part of these financial statements

F-5

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**Note 1 - Organization**

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 ). Prior to the plan of reorganization (see Note 2 below) which occurred on March 19, 2004, the Company through its subsidiary, Salty's Warehouse, Inc. sold various home and automobile electronic equipment, computer accessories and supplies. The Company is currently in the exploratory stage with its principal activity being the exploration of mining properties for future commercial development and production (See Note 3).

Restated Financial Statements

The accompanying financial statements have been restated based upon Management's further review of its status as an exploratory stage company.

**Note 2 - Summary of Significant Accounting Policies**

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 year ended December 31, 2005 of \$616,859, and at December 31, 2005 had a negative working capital of \$386,238 and had an accumulated deficit of \$1,539,618. 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 plans to take the following steps that it believes will be sufficient to provide the Company with the ability to continue in existence:

The Company plans to raise additional operating funds through equity or debt financing. There is no assurance that the Company will be able to arrange for financing and has not, to date, had any substantive discussions with any third parties regarding such financing.

The holders of the Company's notes payable recent converted all principal and accrued interest into shares of the Company's common stock.

Stock Split

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. The accompanying financial statements have been retroactively restated to present the effect of these three stock splits.

Plan of Reorganization

On March 19, 2004, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber agreed to redeem 2,091,093,840 (5,110,200 pre-split) of their shares of the Company's common stock in exchange for all of the Company's shares of Salty's Warehouse, Inc. and to redeem 375,563,760 (917,800 pre-split) of their shares of the Company's common stock in exchange for \$570,000. As a condition to these transactions, Messrs. Shannon, Hudson, and Bodenweber resigned as officers of the Company. Earl W. Abbott was appointed President, Chief Financial Officer and Secretary of the Company. In addition, Mr. Abbott, Carl A. Pescio and Stanley B. Keith have collectively purchased 34,372,800 (84,000 pre-split) shares of common stock from the Company for \$10,000. Mr. Abbott, Mr. Pescio and Mr. Keith replaced Messrs. Shannon, Hudson and Bodenweber on the Board of Directors of the Company.

Stock Based Compensation

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company has elected to use the intrinsic value based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation. The Company uses the fair value method for options granted to non-employees. There were no options issued to employees during the year ended December 31, 2005 and 2004; therefore the pro forma disclosure is not presented.

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

We had agreed to grant, but ultimately did not grant, options to Dr. Abbott and Messrs. Pescio and Keith, which, if consummated, would have had the following attributes:

Earl W. Abbott: up to 500,000 options, of which 250,000 would vest on December 15, 2005 at an exercise price of \$1.00 per share and another 250,000 which would vest when the Company acquires a mining project with a drill-indicated resource (1) of at least 1.5 million ounces of gold or gold-equivalent (2) and if financing can be arranged; the exercise price of these options will be \$1.00 per share.

Stanley B. Keith and Carl A. Pescio would each to receive the following: up to 250,000 options, of which 125,000 would vest on December 15, 2005 at an exercise price of \$1.00 per share and 125,000 which would vest according to the same mining project schedule as above.

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

For certain of the Company's financial instruments, including cash, deposits, accounts payable and accrued interest, the carrying amounts approximate fair value due to their short maturities. The amounts shown for notes payable also approximate fair value because current interest rates and terms offered to the Company for similar debt are substantially the same.

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.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash and accounts receivables. 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. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required.

Revenue Recognition

The Company accounted for revenues from its Salty's Warehouse, Inc. subsidiary pursuant to SAB 101 - Revenue Recognition and EITF 99-19 - Reporting Revenue Gross as a Principal versus Net as an Agent. Net revenue as an agent, from the sale of products (consisting primarily of automobile electronic equipment, home electronics, computer accessories and supplies) are recognized when title to the products are transferred to the customer (product shipment)

and only when no further contingencies or material performance obligations are warranted and, thereby, have earned the right to receive and retain reasonably assured payments.

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

F-7

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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.

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 December 31, 2005 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 35,692,201 and 573,837,508 for the year ended December 31, 2005 and 2004, respectively.

Reclassification

Certain reclassifications have been made to the 2004 balances to conform to the 2005 presentation.

Recently Issued Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principle and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless this would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes the adoption of this standard

will have no material impact on its financial statements.

In February 2006, FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*. SFAS No. 155 amends SFAS No 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. The Company believes the adoption of this standard will have no material impact on its financial statements.

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's first quarter of fiscal 2006. The Company believes the adoption of this standard may have a significant impact on its financial statements.

In June 2005, the EITF reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ("EITF 05-6.") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material effect on its financial position or results of operations.

**Note 3 - Mining Claims**

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. Terms of each of the four leases 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

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. 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.

F-9

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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 is a Company Director.

Under the preliminary terms of this agreement, the Company was granted a license to explore the property for a period of six-months to determine what claims, if any, it wishes to lease. While the term of the license is for six-months, the Company has the option to extend.

If the Company leases all of the 247 claims, it will be required to make the following advance lease payments:

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. A 1% royalty is also due the owners on production on property consisting of a 2-mile circumference surrounding the leased property.

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 One Million Five Hundred Thousand Dollars (\$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 Tornado 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 Five Hundred Thousand Dollars (\$500,000) for the one-half percent (.5%) of the Area of Interest Royalty applicable to mineral rights, mining claims and properties that Tornado 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.

The terms and obligations disclosed above are based upon preliminary agreements of the parties still under review and may be subject to change.

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

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

The above \$35,000 advance in 2005 was to be paid in installments of \$5,000 upon signing. The remaining \$30,000 was paid in 2006. The Company is currently in renegotiations with Mr. Pescio to finalize the actual terms of the 10 leases.

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Based upon the actual terms of the leases acquired in May 2004 and the preliminary terms of the leases acquired in October 2005, the Company's obligation for minimum lease payments on these 15 properties is as follows:

2006	\$ 692,500*
2007	\$ 930,000
2008	\$ 1,237,500
2009	\$ 1,550,000
2010	\$ 1,862,500
Minimum lease payments in	
Subsequent years	\$ 2,500,000

\* (Excludes the \$300,000 paid in 2006 on the above 10 mining properties)

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

The NTGreen 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.

The 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.

The 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.

The 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. About 3 miles to the northeast.

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.

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.



**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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.

As of December 31, 2005, the Company incurred a total of \$524,333 in acquisition costs. The Company has recently commenced its 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 4 - Notes Payable**

On 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.

On July 1, 2005, the Company borrowed \$100,000 from Gatnara 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 at December 31, 2005 amounted to \$4,011.

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 matures on December 31, 2006. Accrued interest related to these notes at December 31, 2005 amounted to \$8,676.

#### **Note 5 - Stockholders' Equity**

##### Common stock

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

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 March 19, 2004, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber redeemed 2,091,093,840 shares (post-split) of the Company's common stock in exchange for all of the Company's shares of Salty's Warehouse, Inc.

F-12

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

In March 2004, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber redeemed 375,563,760 (post-split) of their shares of the Company's common stock in exchange for \$570,000.

In March 2004, Mr. Earl W. Abbott, Carl A. Pescio and Stanley B. Keith (the new management of the Company) collectively purchased 34,372,800 (post-split)/84,000 (pre-split) shares of common stock from the Company for \$10,000. The payment for these shares was received in April 2004. At the time of the issuance of these shares to new management, none of our shares of common stock had been traded in the public markets. Since our perceived aggregate value was minimal, the new management decided to pay a nominal amount for the 84,000 (pre-split) shares of common stock.

On April 15, 2005, the Company's officers and directors agreed to redeem 27,172,800 of their shares for \$7,906 or \$.0002909 per share. The new management desired to decrease their percentage ownership interest of us, as well as the number of our outstanding shares of common stock, so they agreed to sell their shares of common stock back to us for the amount they initially paid for them. This includes 13,586,400 shares from Dr. Abbott, and 6,793,200 shares each from 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.

As discussed in Note 4, on 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 4<sup>th</sup> 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 shares. As of December 31, 2005, the Company received \$499,582. The remaining \$418 has been charged to equity and included in subscription receivable.

Options and Warrants:

In March 2004, the Company issued 60,000 options to former employees of the Company. The fair value for these options was estimated to be \$4,540 and has been recorded as an expense in the accompanying statement of operations. The fair value was estimated using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 5.5%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 50%; and a weighted average expected life of the option of 10 years, respectively.

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 shares. These options were valued using the Black-Scholes option pricing model using the following assumptions: term of 1,853 days, a risk-free interest rate of 3.85%, a dividend yield of 0% and volatility of 63%. The value of these options of \$12,075 was amortized over the three-month initial term of the agreement and was charged to operations in 2005.

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 shares. These options were valued using the Black-Scholes option pricing model using the following assumptions: term of 1,762 days, a risk-free interest rate of 4.45%, a dividend yield of 0% and volatility of 71%. These options were valued \$52,150 and are being amortized over the nine month remaining term of the agreement. In 2005, \$5,794 was charged to operations in 2005.

The 150,000 options granted in 2005 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.

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.

F-13

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

The following table summarizes the options and warrants outstanding:

	Option/Warrants	Weighted- Average Exercise Price
Balance, December 31, 2003	852,000,000	\$ 0.0000
Canceled	(852,000,000)	\$ 0.0000
Granted	60,000	\$ .00000
Balance, December 31, 2004	60,000	\$ 0.1500
Granted	775,000	\$ 0.8306
Balance, December 31, 2005	835,000	\$ 0.7817

**Note 6 - 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 December 31, 2005 are as follows:

Deferred tax assets:	
Net operating loss	\$ 221,000
Less valuation allowance	(221,000)
	\$

At December 31, 2005, the Company had federal net operating loss ("NOL") carryforwards of approximately \$650,000. Federal NOLs could, if unused, begin to expire in 2017.

The valuation allowance increased by approximately \$96,000 and \$86,000 during the year ended December 31, 2005 and 2004, respectively.

The reconciliation of the effective income tax rate to the federal statutory rate for the years ended December 31, 2005 and 2004 is as follows:

	2005	2004
Federal income tax rate	(34.0%)	(34.0%)
State tax, net of federal benefit		
Loss for which no federal benefit was received	34.0%	34.0%
Effective income tax rate	0.0%	0.0%

Utilization of the net operating loss and tax credit carryforwards is subject to significant limitations imposed by the change in control under I.R.C. 382, limiting its annual utilization to the value of the Company at the date of change in control times the federal discount rate.

**Note 7 - Discontinued Operation**

On March 19, 2004, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber agreed that 2,091,093,840 (post-split) of their shares of the Company will be redeemed by the Company in exchange for all of the Company's shares of Salty's Warehouse, Inc. As a result of this transaction, the operations of Salty's has been shown as a

discontinued operation in the accompanying financial statements.

F-14

---

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

Salty's revenues were \$1,415 for the period starting January 1, 2004 to March 19, 2004. The results of operations of Salty's have been reported separately as discontinued operations.

Actual net income (loss) of Salty's during the period from January 1, 2004 through March 19, 2004 was \$871. The impact on the disposition of Salty's was \$1,418, which has been recorded directly to stockholders' deficit since this was a transaction among related parties. The \$1,418 is the difference between the par value of the original 5,110,200 shares redeemed (\$5,110) less the cost bases of the relinquished net assets of Salty's which totals \$3,692. The \$1,418 was calculated under FASB 153 which states that nonmonetary exchanges are measured based upon the recorded amount of the nonmonetary asset relinquished when the exchange lacks commercial substance.

The following is a summary of the net assets of Salty's at March 19, 2004:

	March 19, 2004
<b>Assets:</b>	
Cash	\$ 6,068
<b>Total assets</b>	<b>\$ 6,068</b>
<b>Liabilities:</b>	
Accounts payable	\$ 1,371
Accrued expenses	1,005
<b>Total liabilities</b>	<b>\$ 2,376</b>
<b>Net assets of discontinued operations</b>	<b>\$ 3,692</b>

The gain on the disposition of Salty's of \$1,418 was calculated as the difference in the value of the stock returned of \$5,110 and the net assets of Salty's of \$3,692.

**Note 8 - Related Party Transactions**

During the years ended December 31, 2005 and 2004, 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 year ended December 31, 2005 and 2004, the Company paid Mr. Pescio \$140,000 and \$60,000, respectively, related to these agreements. In addition, during the years ended December 31, 2005 and 2004, the Company incurred \$5,744 and \$0, respectively to Mr. Pescio for consulting services related to mining exploration.

As further discussed in Note 3, the Company entered into an agreement with Mr. Earl Abbott and Mr. Stanley Keith to explore the feasibility and possible lease and acquisition of certain mining claims owned jointly by Mr. Abbott and Mr. Keith.

During the year ended December 31, 2005, the Company incurred consulting fees for services rendered by Mr. Earl Abbott, the Company's President totaling \$89,950 of which \$61,775 related to mining exploration and the remaining

\$28,175 related to was charged to general administrative activities. The Company also during the year ended December 31, 2005, the Company reimbursed Mr. Abbott \$25,609 for travel and other company related expenses.

During the year ended December 31, 2004, the Company incurred consulting fees for services rendered by Mr. Earl Abbott, the Company's President totaling \$36,268 of which \$17,482 related to mining exploration and the remaining \$18,786 related to was charged to general administrative activities. The Company also during the year ended December 31, 2004, the Company reimbursed Mr. Abbott \$9,470 for travel and other company related expenses.

During the year ended December 31, 2005, the Company incurred consulting fees for services rendered by Mr. Stanley Keith, a director of the Company totaling \$3,349 of which \$1,389 related to mining exploration and the remaining \$1,960 related to was charged to general administrative activities. The Company also during the year ended December 31, 2005, the Company reimbursed Mr. Keith \$579 for travel and other company related expenses.

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

During the year ended December 31, 2004, the Company incurred consulting fees for services rendered by Mr. Stanley Keith, a director of the Company totaling \$5,007 of which \$3,361 related to mining exploration and the remaining \$1,646 related to was charged to general administrative activities.

As of April 15, 2005, the Company adopted its 2005 stock option plan to compensate its directors as discussed in Note 2 above.

**Note 9 - Subsequent Events**

During the three months ended March 31, 2006, the Company received \$649.838 through the issuance of 3 convertible debentures, each bear interest at an annual rate of 8% and mature on December 31, 2006, when the principal and accrued interest become fully due and payable. The Company has the sole right to convert the three notes in its common shares at a rate of \$1.00 per share.

During the three months ended March 31, 2006, the Company made advance lease payments to Mr. Carl Pescio on its mining claims totaling \$550,000.

**TORNADO GOLD INTERNATIONAL CORP.**  
**(An Exploratory Stage Company)**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS.**

There have been no changes in or disagreements with our accountants since our formation required to be disclosed pursuant to Item 304 of Regulation S-B that have not been previously reported.

The reports of Jonathon P. Reuben for these fiscal years ending December 31, 2005 and December 31, 2004 did not contain an adverse opinion, or disclaimer of opinion and were not qualified or modified as to audit scope or accounting principles except as described herein. The report of Jonathon P. Reuben for these fiscal years was qualified with respect to uncertainty as to our ability to continue as a going concern.

**ITEM 8A. CONTROLS AND PROCEDURES.**

(a) Evaluation of disclosure controls and procedures. We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed as of December 31, 2005, the end of the period covered by this report, our chief executive officer and the principal financial officer concluded that our disclosure controls and procedures were effective.

(b) Changes in internal controls. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

**ITEM 8B. OTHER INFORMATION.**

In November 2005, we announced that we had secured a non-brokered private placement of \$500,000 consisting of 625,000 units at a price of \$0.80 per unit. Each unit consists of one common share and one full warrant. Each warrant allows the purchase of an additional common share of the company at a price of \$0.85 cents per share for a two year period.

**PART III****ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS.**

As of December 31, 2005, our directors and executive officers were as follows:

<u>NAME</u>	<u>AGE</u>	<u>POSITION</u>
Earl W. Abbott	64	President, Chief Executive Officer, Secretary, Director
George J. Drazenovic*	35	Chief Financial Officer
Carl A. Pescio	54	Director
Stanley B. Keith	57	Director

\*Mr. Drazenovic was appointed as our Chief Financial Officer in March 2006.

**EARL W. ABBOTT, PRESIDENT, CHIEF EXECUTIVE OFFICER, SECRETARY, AND A DIRECTOR.** Dr. Abbot was appointed as our President, Chief Executive Officer, Chief Financial Officer, Secretary and a Director in March 2004. He resigned as our Chief Financial Officer in March 2006 when Mr. Drazenovic was appointed as Chief Financial Officer. Dr. Abbott is a senior geologist and Qualified Person with thirty-three years of experience in mineral exploration for large and small companies in the western United States, Alaska, Mexico, China, Africa, and Costa Rica. From 2003 to the present, Dr. Abbott has been the president of Big Bar Gold Corp., a company reporting on a Canadian exchange, and from 1999 to present, Dr. Abbot has served as the president of King Midas Resources Ltd., a private Canadian company he founded which has acquired U.S. and Mexican gold properties. From 1982 to the Present, Dr. Abbott has been self-employed as a geological consultant, in which he manages metallic and industrial mineral projects and exploration programs. From 1988 to 1997, Dr. Abbott was the Vice President and Director the Trio Gold Corp., where he managed gold exploration activities in the U.S., Ghana, and Costa Rica. From 1983 to 1984, he served as a regional geologist for U.S. Minerals Exploration Company, where he conducted a successful gold exploration program in Nevada & Utah. From 1978 to 1982 he was a district geologist for Energy Reserves Group, Inc. where he opened and managed the Reno District exploration office, and managed on more than twenty projects which included geologic mapping, geochemical surveys, and more than 70,000 feet of rotary drilling, along with conducting uranium exploration in Nevada, Wyoming, South Dakota, and Montana. From 1975 to 1985, Dr. Abbott was a senior geologist with Urangesellschaft USA, Inc., where he conceived, managed, and conducted uranium exploration programs in remote terrains in Alaska, and from 1971 to 1975, Dr. Abbot was a project geologist for Continental Oil Company where he supervised uranium exploration rotary drilling programs in Wyoming.

Dr. Abbott is a member of the American Institute of Professional Geologists and is a Certified Professional Geologist, and a past president of the Nevada Section. He is also a member of the Geological Society of Nevada and its past president. Dr. Abbott is also a member of the Society of Mining Engineers of American Institute of Mining, Metallurgical and Petroleum, the Denver Region Exploration Geologists Society and its past president, and a member of the Nevada Petroleum Society, and served as its past president as well. Dr. Abbott earned his Ph.D. in Geology in 1972 and his Master of Arts in Geology, 1971 from Rice University, Houston, Texas. Dr. Abbott earned his Bachelor of Arts degree in Geology in 1965 from San Jose State College, San Jose, California. Dr. Abbott is not an officer or director of any other reporting company.

**GEORGE J. DRAZENOVIC, CHIEF FINANCIAL OFFICER.** Mr. Drazenovic was appointed as our Chief Financial Officer on March 28, 2006. Prior to joining us, and from April 2005 until the present, Mr. Drazenovic was the Chief Financial Officer of EPOD International, Inc. a U.S. reporting company, and from 2001 to 2005, was a Corporate Finance Manager with BC Hydro. Mr. Drazenovic earned his Bachelor of Arts in Economics from the University of British Columbia in 1991, a Diploma in Financial Management from the British Columbia Institute of Technology in 1993, and a Masters of Business Administration in Finance from the University of Notre Dame in 2001. He also obtained licensing as a CGA (Certified General Accountant) in 1997 and is a CFA Charter holder (Chartered Financial

Analyst) since 2001. Mr. Drazenovic is a member of the Certified General Accountants of British Columbia, and the Vancouver Society of Financial Analysts. Mr. Drazenovic is a citizen of and resides in Canada. Mr. Drazenovic is not an officer or director of any other reporting company.

**CARL A. PESCIO, DIRECTOR.** Carl A. Pescio is a geologist offering more than 30 years of experience in the mining resource sector. In 1974, Mr. Pescio graduated from the University of Nevada with a Bachelor of Science in Geology. After graduating Mr. Pescio joined Kennecott Copper Corp. as a geologist. Since 1975, Mr. Pescio has worked for numerous other natural resource companies in various positions including; Geologist, Chief Geologist, Geological Engineer, Mine Manager, and Vice President of Exploration. Mr. Pescio's tenure with Alta Gold between 1987-1991 as Vice-President of Mining and Exploration, led to his interest and focus on exploration for precious metal deposits in the Nevada gold trends. Since 1991, he has focused his efforts in acquiring properties with potential for deposits large enough to interest the major mining companies in the area. Currently, Mr. Pescio is the President of Pescio Exploration which owns approximately 45 properties, covering more than 20,000 hectares in Nevada. More than half of Pescio Exploration's properties are under lease and being explored by others. Mr. Pescio is also Vice-President of Exploration and a Director for Mill City International Corp. Mr. Pescio is not an officer or director of any other reporting company.

**STANLEY B. KEITH, DIRECTOR.** Stanley B. Keith is a geologist and geochemist with 25 years experience in minerals exploration. After graduating from the University of Arizona with a Master's degree in Geology in 1978, he worked for major companies such as Exxon Minerals and was a geologist for the Arizona Geological Survey. In 1983 he co-founded and continues to be the President of MagmaChem, LLC, offering highly skilled services to the exploration and mining industry. He has consulted for major mining companies, including Newmont, Barrick, BHP, Phelps-Dodge, AngloGold, and many others. Since 1993, he has worked with Dr. Earl W. Abbott on numerous gold projects in Nevada, especially the Carlin Trend. Mr. Keith is not an officer or director of any other reporting company.

There are no orders, judgments, or decrees of any governmental agency or administrator, or of any court of competent jurisdiction, revoking or suspending for cause any license, permit or other authority to engage in the securities business or in the sale of a particular security or temporarily or permanently restraining any of our officers or directors from engaging in or continuing any conduct, practice or employment in connection with the purchase or sale of securities, or convicting such person of any felony or misdemeanor involving a security, or any aspect of the securities business or of theft or of any felony, nor are any of the officers or directors of any corporation or entity affiliated with us so enjoined.

Dr. Abbott and Messrs. Keith and Pescio, our directors, were all appointed on March 19, 2004. Directors serve until the next annual meeting or until their successors are qualified and elected. Officers serve at the discretion of the Board of Directors.

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.** Section 16(a) of the Securities Act of 1934 requires our directors, executive officers, and any persons who own more than 10% of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. SEC regulation requires executive officers, directors and greater than 10% stockholders to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during the fiscal year ended December 31, 2005 our executive officers, directors, and greater than 10% stockholders complied with all applicable filing requirements.

**AUDIT COMMITTEE AND FINANCIAL EXPERT.** Because we do not have the resources to expand our management at this time, we do not have an audit committee, nor do we have a financial expert on our Board of Directors as that term is defined by Item 401(e)2.

**CODE OF ETHICS.** We have not adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We are in the process of preparing and adopting a code of ethics.

**CONFLICTS OF INTEREST.** We believe that Messrs. Pescio and Keith will be subject to conflicts of interest. The conflicts of interest arise from their relationships in other mining companies, the property ownership interests of those other mining companies and the amount of time they may spend with the operations of those other entities.

We face strong competition from other mining companies, including those owned by two of our directors, for the acquisition of new properties. Mines have limited lives and as a result, we continually seek to find new properties. In addition, there is a limited supply of desirable mineral lands available in the United States where we would consider conducting exploration activities. Because we face strong competition for new properties from other mining companies, including those which are owned by Messrs. Pescio and Keith, two of our directors, and other competitors, some of whom have greater financial resources than we do, we may be unable to acquire attractive new mining properties on terms that we consider acceptable. Since these directors have conflicts of interests in that they manage other mining companies and have entered into agreements with them and their companies to acquire certain properties or property rights, a conflict of interest exists. In addition, in the future, if we decide to acquire additional interests in such mining properties, which are also sought by one of the companies which Mr. Pescio or Mr. Keith manage or

control, or owned by them or one of those companies, a direct conflict of interest could result. Our Articles of Incorporation provide that any conflict must be disclosed, but Mr. Pescio or Mr. Keith would be allowed to vote on any transaction in which they were interested.

With regard to any future related party transaction, we plan to fully disclose any and all related party transactions, including, disclosing such transactions and obtaining shareholder consent where required.

#### **ITEM 10. EXECUTIVE COMPENSATION**

Any compensation received by our officers, directors, and management personnel will be determined from time to time by our Board of Directors. Our officers, directors, and management personnel will be reimbursed for any out-of-pocket expenses incurred on our behalf.

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

SUMMARY COMPENSATION TABLE. The following table sets forth the total compensation earned by or paid to our Chief Executive Officer and our other most highly compensated executive officers for the fiscal years ended December 31, 2005 and December 31, 2004.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION			ALL OTHER COMPENSATION
		SALARY (\$)	BONUS (\$)	OTHER ANNUAL COMPENSATION (\$)	AWARDS RESTRICTED STOCK AWARDS (\$)	SECURITIES UNDERLYING OPTIONS/SARS (#)	PAYOUTS LTIP PAYOUTS (\$)	
Earl W. Abbott, CEO, president, secretary, treasurer	2005	None	None	None	None	None(1)	None	\$ 89,950
Earl W. Abbott, CEO, president, secretary, treasurer	2004	None	None	None	None	None	None	\$ 36,268
Earl T. Shannon, former president secretary	2004	None	None	None	None	None	None	
Steven W. Hudson, former secretary	2004	None	None	None	None	None	None	
Scott W. Bodenweber, former CFO	2004	None	None	None	None	None	None	

(1) We had agreed to grant, but ultimately did not grant, 250,000 options to Dr. Abbott, which would have vested in December 2005.

(2) Dr. Abbott received a total of \$89,950 for consulting services during the year ended December 31, 2005, of which \$61,775 relates to mining exploration and the remaining \$21,875 related to general administrative services. In addition, during 2005, Dr. Abbott was reimbursed \$25,609 for travel and other company-related expenses.

(3) Dr. Abbott received a total of \$36,268 for consulting services during the year ended December 31, 2004, of which \$17,482 relates to geological services and \$18,786 relates to administrative services, In addition during 2004, Dr. Abbott was reimbursed \$9,470 for travel and related expenses.

Mr. Drazenovic was appointed in March 2006, and will be paid a salary of \$2,500 per month. The terms of his employment are still being finalized.

Mr. Pescio and Mr. Keith, two of our directors, are also compensated for their mining exploration services, administrative services and travel expenses, as those services are rendered. Those services are rendered to us on a contractor basis. Mr. Pescio and Mr. Keith are each due to receive 125,000 options to purchase shares of our common

stock, which vested in December 2005, but have not yet been granted.

**STOCK OPTIONS.** Our Board of Directors adopted our 2003 Incentive and Nonstatutory Stock Option Plan (the "2003 Stock Option Plan") on May 1, 2003. Under the 2003 Stock Option Plan, 5,000,000 shares of common stock were authorized for issuance upon the exercise of Incentive Stock Options or Nonstatutory Stock Options. The 2003 Stock Option Plan anticipates qualifying under Section 423 of the Internal Revenue Code of 1986, as an "employee stock purchase plan." Under the 2003 Stock Option Plan, options may be granted to our key employees, officers, directors or consultants.

The purchase price of the common stock subject to each Incentive Stock Option shall not be less than the fair market value (as determined in the 2003 Stock Option Plan), or in the case of the grant of an Incentive Stock Option to a principal stockholder, not less than 110% of fair market value of such common stock at the time such option is granted. The purchase price of the common stock subject to each Nonstatutory Stock Option shall be determined at the time such option is granted, but in no case less than 100% of the fair market value of such shares of common stock at the time such option is granted.

The 2003 Stock Option Plan shall terminate 10 years from the earlier of the date of its adoption by the Board of Directors or the date on which the 2003 Stock Option Plan is approved by the affirmative vote of the holders of a majority of the outstanding shares of our capital stock entitled to vote thereon, and no option shall be granted after termination of the 2003 Stock Option Plan. Subject to certain restrictions, the 2003 Stock Option Plan may at any time be terminated and from time to time be modified or amended by the affirmative vote of the holders of a majority of the outstanding shares of our capital stock present, or represented, and entitled to vote at a meeting duly held in accordance with the applicable laws of the State of Nevada.

The shares underlying the 2003 Stock Option plan were registered for sale under the Securities Act of 1933, as amended, on Form S-8. The consent of a majority of our voting shares was given for the approval of the 2003 Stock Option Plan by written consent on May 1, 2003.

There were 2,500,000 options originally issued under the 2003 Stock Option Plan. However, in connection with the Transfer and Sale to our new management as described herein, the 2003 Stock Option Plan will terminate and all options issued under the stock option plan shall be cancelled excepting 60,000 stock options shall remain outstanding on a pro rata basis among the holders as listed below pursuant to amended Stock Option Agreements.

**OPTION GRANTS IN 2003--INDIVIDUAL GRANTS**

NAME (1)	NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED (#)	PERCENT OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE EXPIRATION PRICE (\$/SH)	DATE
Earl T. Shannon, President	28,800	48%	\$ 0.15/Sh	05/01/13
Steven W. Hudson, Secretary	24,000	40%	\$ 0.15/Sh	05/01/13
Scott W. Bodenweber, CFO	7,200	12%	\$ 0.15/Sh	05/01/13

(1) This table reflects ownership and positions held as of December 31, 2003.

We issued 60,000 options to former employees in March 2004, pursuant to agreements amending the terms of the option agreements from March 2003.

## **OPTION GRANTS IN 2004 - INDIVIDUAL GRANTS**

No options were granted during 2004.

## **OPTIONS GRANTS IN 2005 - INDIVIDUAL GRANTS**

We had agreed to grant, but ultimately did not grant, options to Dr. Abbott and Messrs. Pescio and Keith, which, if consummated, would have had the following attributes:

Earl W. Abbott: up to 500,000 options, of which 250,000 vest on December 15, 2005 at an exercise price of \$1.00 per share and another 250,000 which shall vest when we acquire a mining project with a drill-indicated resource (1) of at least 1.5 million ounces of gold or gold-equivalent (2) and if financing can be arranged; the exercise price of these options will be \$1.00 per share. Stanley B. Keith and Carl A. Pescio are to each to receive the following: up to 250,000 options, of which 125,000 vest on December 15, 2005 at an exercise price of \$1.00 per share and 125,000 which shall according to the same mining project schedule as Dr. Abbott.

(1) Drill-indicated resource means a deposit that has been investigated and measured through industry-standard geologic and engineering methods, but that has not had a positive feasibility study performed.

(2) Gold equivalent means the value of gold and other metals expressed as gold ounces at the price of gold and the other metals at the time of acquisition.

In September 2005, we granted a total of 150,000 options to Access Capital for consulting services. These options have a strike price of \$0.75 and expire September 28, 2010.

There were no other option grants during the year ended December 31, 2005.

**COMPENSATION OF DIRECTORS.** Our directors do not receive any cash compensation, but are entitled to reimbursement of their reasonable expenses incurred in attending directors' meetings. We anticipate entering into stock option agreements with our directors, Dr. Abbott and Messrs. Pescio and Keith.

We had agreed to grant, but ultimately did not grant, Mr. Abbott 250,000 options, which would have vested in December 2005. Mr. Pescio and Mr. Keith were each to receive 125,000 options to purchase shares of our common stock, which would have vested in December 2005, but will not be granted.

Dr. Abbott, our employee and one of our officers and directors, is compensated for the consulting services he provides as an independent contractor for mining exploration and general administrative services to us. In addition, he is also reimbursed for travel and other company-related expenses. Mr. Pescio and Mr. Keith, our other two directors, are also compensated for their mining exploration services, administrative services and travel expenses, as those services are rendered. Those services are rendered to us on a contractor basis.

## **ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

The following table sets forth certain information regarding the shares of our outstanding Common Stock beneficially owned as December 31, 2005 by (i) each of our directors and executive officers, (ii) all directors and executive officers as a group, and (iii) each other person who is known by us to own beneficially more than 5% of our Common Stock based upon 28,791,726 issued common shares.

Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNER	PERCENT OF CLASS
Common Stock	Earl W. Abbott 8600 Technology Way, Suite 118, Reno NV 89521	3,600,000 shares(3) President, Secretary, Treasurer, Director	12.5%
Common Stock	George J. Drazenovic(2) 8600 Technology Way, Suite 118, Reno NV 89521	no shares Chief Financial Officer	0.0%
Common Stock	Stanley B. Keith 8600 Technology Way, Suite 118, Reno NV 89521	1,800,000 shares(3) Director	6.3%
Common Stock	Carl A. Pescio 8600 Technology Way, Suite 118, Reno NV 8952	1,800,000 shares(3) Director	6.3%
Common Stock	All directors and named executive officers as a group	7,200,000 shares	25.0%(1)

(1) Figures may vary due to rounding.

(2) Mr. Drazenovic was appointed in March 2006, and does not own any shares of our common stock or any other of our securities.

(3) We had agreed to grant, but ultimately did not grant, 250,000 options to Dr. Abbott which would have vested in December 2005. Mr. Pescio and Mr. Keith were to receive 125,000 options, but these were not granted.

CHANGES IN CONTROL. As of December 31, 2005, our management was not aware of any arrangements which may result in "changes in control" as that term is defined by the provisions of Item 403(c) of Regulation S-B, except for the following:

On April 15, 2005, our officers and directors agreed to redeem 27,172,800 of their shares for \$7,906 or \$.0002909 per share. The new management desired to decrease their percentage ownership interest of us, as well as the number of our outstanding shares of common stock, so they agreed to sell their shares of common stock back to us for the amount they initially paid for them. This includes 13,586,400 shares from Dr. Abbott, and 6,793,200 shares each from 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 us in March 2004. This transaction changes their ownership percentage from 63.7% to 26.8% . We also issued shares of our common stock to an unrelated third party who has loaned us an aggregate total of \$1,025,000 since March 2004 to settle that debt. The number of shares issued was 1,104,271 or 4.7% of our current issued and outstanding common stock, which is represented by 1,025,000 shares for the principal owed and 79,271 for the interest that had accrued through April 15, 2005. This transaction changes our management's ownership percentage

from 26.8% to 25.6% .

On March 19, 2004, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber our former officers and directors at the time, agreed to have 2,091,093,840 (5,110,200 pre-split) of their shares redeemed by us in exchange for all of our shares of Salty's Warehouse, Inc. Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber agreed that 375,563,760 (917,800 pre-split) of their shares in us would be redeemed by us in exchange for \$570,000. As a condition to these transactions, Messrs. Shannon, Hudson, and Bodenweber resigned as our officers. Earl W. Abbott was appointed as our President, Chief Financial Officer and Secretary. In addition, Dr. Abbott, Carl A. Pescio and Stanley B. Keith have collectively purchased 84,000 shares of pre-split common stock from us. Dr. Abbott, Mr. Pescio and Mr. Keith replaced Messrs. Shannon, Hudson and Bodenweber on our Board of Directors ten days after a Schedule 14f-1 was delivered to our shareholders.

We had agreed to grant, but ultimately did not grant, options to Dr. Abbot and Messrs. Pescio and Keith, which, if consummated, would have had the following attributes:

Earl W. Abbott will be eligible to receive up to 500,000 options, of which 250,000 vest on December 15, 2005 at an exercise price of \$1.00 per share and another 250,000 which shall vest when we acquire a mining project with a drill-indicated resource of at least 1.5 million ounces of gold or gold-equivalent and if financing can be arranged; the exercise price of these options will be \$1.00 per share. None of these options have yet been granted.

Stanley B. Keith and Carl A. Pescio are to each to receive the following: up to 250,000 options, of which 125,000 vest on December 15, 2005 at an exercise price of \$1.00 per share and 125,000 which shall according to the same mining project schedule as above. None of these options have yet been granted.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. In accordance with Securities and Exchange Commission rules, shares of our common stock which may be acquired upon exercise of stock options or warrants which are currently exercisable or which become exercisable within 60 days of the date of the table are deemed beneficially owned by the optionees. Subject to community property laws, where applicable, the persons or entities named in the table above have sole voting and investment power with respect to all shares of our common stock indicated as beneficially owned by them.

## **ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

### **RELATED PARTY TRANSACTIONS.**

On May 1, 2002, Salty's Warehouse bought back 10 shares of Salty's Warehouse each from Mark Shannon and Ronald Shannon for \$30 per share, counting \$290 in paid-in capital by each of them. At the time of this transaction, these shares represented 20% of the outstanding shares of Salty's Warehouse. These shares were cancelled by Salty's Warehouse.

Earl T. Shannon, Steven W. Hudson, Mark R. Shannon, Ronald J. Shannon are promoters of Salty's Warehouse as defined by the Securities and Exchange Commission. The only items of value they received from Salty's Warehouse are the stock they were issued by Salty's and any consideration they have received from sales of this stock. On July 16, 1998, Earl T. Shannon, Mark R. Shannon and Ronald Shannon each received 33.333 shares, representing in the aggregate 100% of Salty's Warehouse at par value for services rendered. The determination of the value of their services was made by Earl T. Shannon, Mark R. Shannon and Ronald Shannon as the shareholders of Salty's Warehouse. On March 15, 1999, they redistributed this stock such that Earl T. Shannon and Steven W. Hudson each received 40 shares and Mark R. Shannon and Ronald J. Shannon each received 10 shares. Subsequently Mark R. Shannon and Ronald J. Shannon each sold all of their shares back to Salty's Warehouse for \$30 per share and Earl T. Shannon and Steven W. Hudson sold 80% of their shares to Nucotec in return for 456,000 Nucotec shares, representing 15% of the outstanding shares of Nucotec on a fully diluted basis.

On May 10, 2002, we acquired an 80% interest in Salty's Warehouse from Earl T. Shannon and Steven W. Hudson. In return, Earl T. Shannon and Steven W. Hudson each received 456,000 shares our common stock, which in the aggregate was equal to 15% of our outstanding shares on a fully diluted basis. See a discussion of this transaction under "Business." As of December 31, 2003 Earl T. Shannon was our President and one of our directors and Steven W. Hudson was our Secretary and one of our directors.

Steven W. Hudson is a principal of Hudson Capital Group, which as of December 31, 2003 was furnishing us with office space and storage space on a rent-free basis.

On October 18, 2002, we borrowed \$15,000 from Earl T. Shannon and Steven W. Hudson, pursuant to promissory notes requiring us to repay the principal and interest accrued at the rate of 10% on October 18, 2003.

On April 30, 2003, we borrowed a total of \$25,000 from Earl T. Shannon and Steven W. Hudson (\$12,500 from each), pursuant to promissory notes requiring us to repay the principal and interest accrued at the rate of 10% on April 30, 2004. On August 8, 2003, we borrowed a total of \$30,000 from Earl T. Shannon and Steven W. Hudson (\$15,000 from each), pursuant to promissory notes requiring us to repay the principal and interest accrued at the rate of 10% on August 8, 2004. On November 12, 2003, we borrowed \$7,500 from Earl T. Shannon pursuant to a promissory note requiring us to repay the principal and interest accrued at the rate of 10% on November 12, 2004. On December 1, 2003, we borrowed \$7,500 from Steven W. Hudson pursuant to a promissory note requiring us to repay the principal and interest accrued at the rate of 10% on December 1, 2004.

As of December 31, 2003 on its website, Salty's Warehouse was advertising for sale a \$7,800,000 yacht. International Yacht Collection, a yacht brokerage company, is the listing broker of this yacht. If the yacht sells through Salty's Warehouse, Salty's Warehouse will receive 1.25% of the selling price and International Yacht Collection will receive between 1%-6% of the selling price, dependent upon whether the yacht is sold by an International Yacht Collection agent, in which case International Yacht Collection will receive 3%-6% or by another unaffiliated agent, in which case International Yacht Collection will receive 1%-3%. In the future, Salty's Warehouse may offer for sale other products of International Yacht Collection on a similar basis. International Yacht Collection is owned by Harris W. Hudson, who is one of our stockholders as well as the father of our Secretary and director, Steven W. Hudson. The yacht is owned by Steven W. Hudson's parents. Additionally, Steven W. Hudson is the President and CEO of International Yacht Collection. Steven W. Hudson has advised us that he will not be personally receiving any commission from the sale of the yacht.

On March 19, 2004, our officers and directors at the time, Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber agreed that 2,091,093,840 (5,110,200 pre-split) of their shares will be redeemed by us in exchange for all of our shares of Salty's Warehouse, Inc. Earl T. Shannon, Steven W. Hudson, and Scott W. Bodenweber have agreed that 375,563,760 (917,800 pre-split) of their shares of our stock will be redeemed by us in exchange for \$570,000. As of March 19, 2004, we no longer hold any ownership interest in Salty's Warehouse, Inc.

In addition, in March 2004, Earl W. Abbott, Carl A. Pescio and Stanley B. Keith collectively purchased 84,000 pre-split (34,372,800 post-split) shares of common stock from us for \$10,000.

## Edgar Filing: Tornado Gold International Corp - Form 10KSB/A

As discussed herein, we entered into agreements with a company owned by Mr. Carl A. Pescio, one of our directors, to acquire mining claims. Preliminary forms of these agreements were entered into on May 31, 2004 and were finalized on April 5, 2005.

During the year ended December 31, 2004, we incurred consulting fees for services rendered by Dr. Earl W. Abbott, our President, totaling \$36,268 of which \$17,482 related to mining exploration and the remaining \$18,786 related to was charged to general administrative activities.

Also during the year ended December 31, 2004, we incurred consulting fees for services rendered by a company wholly owned by Mr. Stanley Keith, one of our directors, totaling \$5,007 of which \$3,361 related to mining exploration and the remaining \$1,646 related to was charged to general administrative activities.

On April 15, 2005, our officers and directors agreed to redeem 27,172,800 of their shares for \$7,906 or \$.0002909 per share. The new management desired to decrease their percentage ownership interest of us, as well as the number of our outstanding shares of common stock, so they agreed to sell their shares of common stock back to us for the amount they initially paid for them. This includes 13,586,400 shares from Dr. Abbott, and 6,793,200 shares each from 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 us in March 2004.

We had agreed to grant, but ultimately did not grant, options to Dr. Abbot and Messrs. Pescio and Keith, which, if consummated, would have had the following attributes:

Earl W. Abbott: up to 500,000 options, of which 250,000 will vest on December 15, 2005 at an exercise price of \$1.00 per share and another 250,000 which shall vest when we acquire a mining project with a drill-indicated resource (as defined above) of at least 1.5 million ounces of gold or gold-equivalent (as defined above) and if financing can be arranged; the exercise price of these options will be \$1.00 per share.

Stanley B. Keith and Carl A. Pescio are to each to receive the following: up to 250,000 options, of which 125,000 will vest on December 15, 2005 at an exercise price of \$1.00 per share and 125,000 which shall vest according to the same mining project schedule as above. None of these options have been granted. The 2005 Stock Option Plan has not yet been ratified by our shareholders.

During the year ended December 31, 2005 we had the following transactions with related parties:

- Pursuant to the 2004 agreements to acquire mining claims with a company owned by Mr. Carl Pescio, one of our directors, we paid Mr. Pescio \$140,000 related to these agreements. In addition, during the year ended December 31, 2005 we incurred \$5,744 to Mr. Pescio in consulting services related to mining exploration.
- We entered into an agreement with Dr. Earl Abbott, one of our officers and directors, and Mr. Stanley Keith, one of our directors, to explore the feasibility and possible lease and acquisition of certain mining claims owned jointly by Dr. Abbott and Mr. Keith.
- We incurred consulting fees for services rendered by Dr. Earl Abbott, our President, totaling \$89,950 of which \$61,775 related to mining exploration and the remaining \$28,175 related to general administrative activities. Also during the year ended December 31, 2005, we reimbursed Dr. Abbott \$25,609 for travel and other company related expenses.
- We incurred consulting fees for services rendered by Mr. Stanley Keith, one of our directors, totaling \$3,349 of which \$1,389 related to mining exploration and the remaining \$1,960 related to was charged to general administrative activities. Also during the year ended December 31, 2005, we reimbursed Mr. Keith \$579 for travel and other

company related expenses.

During the three months ended March 31, 2006, we made advance lease payments of \$550,000 to Mr. Pescio on our mining claims.

With regard to any future related party transaction, we plan to fully disclose any and all related party transactions, including, but not limited to, the following:

- disclose such transactions in prospectuses where required;
- disclose in any and all filings with the Securities and Exchange Commission, where required;
- obtain disinterested directors' consent; and
- obtain shareholder consent where required.

## ITEM 13. EXHIBITS

### (a) Exhibit No.

3.1	Articles of Incorporation*
3.1.1	Certificate of Amendment to Articles of Incorporation **
3.1.2	Certificate of Amendment to Articles of Incorporation ***
3.2	Bylaws*
<u>31.1</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company</u>
<u>31.2</u>	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company</u>
<u>32.1</u>	<u>Section 906 Certification by Chief Executive Officer</u>
<u>32.2</u>	<u>Section 906 Certification by Chief Financial Officer</u>

\* Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443). \*\* Filed with our report on Form 8-K filed July 7, 2004 \*\*\* Filed with our report on Form 8-K filed on August 31, 2004

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

**AUDIT FEES.** The aggregate fees billed in each of the fiscal years ended December 31, 2005 and 2004 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-KSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years were \$12,400 and \$16,500 respectively.

**AUDIT-RELATED FEES.** There were no fees billed for services reasonably related to the performance of the audit or review of the financial statements outside of those fees disclosed above under "Audit Fees" for fiscal years 2005 and 2004.

**TAX FEES.** For the fiscal years ended December 31, 2005 and December 31, 2004, our principal accountants did not render any services for tax compliance, tax advice, and tax planning work.

**ALL OTHER FEES. None.**

**PRE-APPROVAL POLICIES AND PROCEDURES.** Prior to engaging its accountants to perform a particular service, our board of directors obtains an estimate for the service to be performed. All of the services described above were approved by the board of directors in accordance with its procedures.

