

TARA GOLD RESOURCES CORP.
Form 10QSB
October 18, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

/X/

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2006.

OR

//

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE TRANSITION FROM _____ TO _____.

COMMISSION FILE NUMBER 000-27715

TARA GOLD RESOURCES CORP.

(Exact Name of Small Business Issuer as Specified in its Charter)

Nevada

88-0441332

(State or other jurisdiction of
(I.R.S. Employer
incorporation or organization)
Identification No.)

2162 Acorn Court, Wheaton, IL

93010

(Address of principal executive offices)
(Zip code)

Issuer's telephone number: (630) 462-2079

N/A

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

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

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

Yes / / No /X/

At October 10, 2007, there were 83,925,953 outstanding shares of the Company's common stock.

Transitional Small Business Disclosure Format: Yes / / No /X/

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

June 30, 2006

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

(AN EXPLORATION STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

<u>Assets</u>	June 30, 2006	December, 31 2005
Current assets:		
Cash and cash equivalents	\$ 31,053	\$ 81,923
Other receivables, net	1,296,677	237,893
Marketable securities	822,000	-
Note receivable	382,000	-
Deferred tax asset, short-term	600,000	-
Other current assets	14,238	-
Total current assets	3,145,968	319,816
Property, equipment, and mine development, net of accumulated depreciation of \$4,598 and \$70 at June 30, 2006 and December 31, 2005, respectively	8,308,353	1,262,819
Deposits	117,561	238,368
Total	\$ 11,571,882	\$ 1,821,003
<u>Liabilities and stockholders equity (deficit)</u>		
Current liabilities:		
Accrued liabilities	\$ 239,409	\$ 260,749
Short-term convertible debt, net	24,868	35,717
Note payable, current	631,052	575,419
Payments received from joint venture partners for options to purchase interests in mining properties	375,000	-
Due to related parties, net	324,273	563,921
Total current liabilities	1,594,602	1,435,806
Long-term accrued liabilities	1,192,500	180,000
Payments received from joint venture partners for options to purchase interests in mining properties.	469,865	-

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Long-term note payable	6,123,167	221,648
Total liabilities	9,380,134	1,837,454
Minority Interest	310,860	-
Commitments and contingencies	-	-

Stockholders' equity (deficit):

Common voting stock: 100,000,000 shares authorized

of \$0.001 par value 80,837,202 (2005 69,912,154) shares

issued and outstanding	80,837	69,912
Share subscription received	5,000	34,500
Additional paid-in capital	3,612,591	2,452,904
Deficit accumulated during exploration stage	(1,429,362)	(2,567,899)
Other comprehensive (loss)	(388,178)	(5,868)
Total stockholders' equity (deficit)	1,880,888	(16,451)
Total	\$ 11,571,882	\$ 1,821,003

See accompanying notes to these condensed consolidated financial statements.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		From inception December 5, 2000 to June 30, 2006
	2006	2005	2006	2005	
Revenue:					
Revenue from website development software	\$ -	\$ -	\$ -	\$ -	168,209
Oil net sales	-	8,809	-	8,809	-
Mining revenues	-	-	-	-	-
	-	8,809	-	8,809	168,209
Cost of Revenue:					
Oil production expenses	-	1,095	-	1,095	-
	-	1,095	-	1,095	-
Gross Profit	-	7,714	-	7,714	168,209
Costs and expenses:					
Operating, general, and administrative expenses	162,681	123,413	319,734	222,170	2,356,996
Depreciation	2,226	1,560	4,460	1,560	207,938
Compensation	94,893	-	196,626	-	196,626
Professional fees	172,882	-	358,786	-	358,786
Total operating, general, and administrative expenses	432,682	124,973	879,606	223,730	3,120,346

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Operating loss	(432,682)	(117,259)	(879,606)	(216,016)	(2,952,137)
Other (income) expense:					
Interest expense	45,912	11,705	217,975	19,920	303,295
Interest income	(9,223)	(81)	(49,243)	(129)	(49,972)
Gain on sale of joint venture interest	-	-	(1,065,500)	-	(1,065,500)
Loss on disposal of assets	-	-	-	-	218,836
Gain on extinguishment of debt	(521,375)	-	(521,375)	-	(311,950)
	(484,686)	11,624	(1,418,143)	19,791	(905,291)
Income (loss) before income taxes	52,004	(128,883)	538,537	(235,807)	(2,046,846)
Income tax provision (benefit)	(111,000)	-	(600,000)	-	(600,000)
Income (loss) from continuing operations	163,004	(128,883)	1,138,537	(235,807)	(1,446,846)
Discontinued operations:					
Income from operations of discontinued oil properties (including a loss on disposal of \$7,679)	-	-	-	-	17,484
Net income (loss)	163,004	(128,883)	1,138,537	(235,807)	(1,429,362)

See accompanying notes to these condensed consolidated financial statements.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(CONTINUED)

	For the Three Months Ended		For the Six Months Ended		From inception
	June 30,		June 30,		December 5, 2000 to
	2006	2005	2006	2005	June 30, 2006
Other comprehensive income:					
Foreign currency translation	(75,532)	(1,281)	(100,310)	(1,281)	(106,178)
Unrealized (loss), net on marketable securities	(177,000)	-	(282,000)	-	(282,000)
Comprehensive income (loss)	\$ (89,528)	\$(130,164)	\$ 756,227	\$ (237,088)	\$ (1,817,540)
Net income (loss) per share basic	\$ 0.00	\$ (0.00)	\$ 0.01	\$ (0.00)	
Weighted Average Number of Common Shares Outstanding basic	80,641,754	56,416,622	78,820,935	54,824,203	
Net income (loss) per share dilutive	\$ 0.00	\$ (0.00)	\$ 0.01	\$ (0.00)	
Weighted Average Number of Common Shares Outstanding - dilutive	87,211,589	56,416,622	80,091,301	54,824,203	

See accompanying notes to these condensed consolidated financial statements.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the Six Months Ended		From inception
	June 30,		December 5, 2000
	2006	2005	to
			June 30, 2006
Cash flows from operating activities:			
Net loss	\$ 1,138,537	\$ (235,807)	\$ (1,429,362)
Adjustments to reconcile net loss to net cash provided			
by operating activities:			
Depreciation expense	4,460	1,560	207,938
Allowance for mining deposits deemed uncollectible	28,770	-	28,770
Allowance for doubtful accounts	(27,579)	-	3,558
Common stock issued for services and other expenses	268,001	55,300	845,939
Gain on sale of joint venture interest (noncash portion)	(1,259,293)	-	(815,500)
Loss on the sale of oil and gas properties and equipment	-	-	218,836
Gain on extinguishment of debt, net	(467,188)	-	(319,788)
Loss on disposal of oil & gas properties	-	-	7,679
Income tax benefit	(600,000)	-	(600,000)
Amortization of beneficial conversion	101,182	17,446	160,937
Changes in operating assets and liabilities:			
Other receivable IVAT	(31,642)	-	181
Other receivable	3,152	7,984	(36,106)
Other current assets	(3,560)	(623)	(3,560)
Other assets	33,240	-	(14,237)
Accrued expenses	(21,342)	97,073	239,409

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Net cash used in operating activities	(833,262)	(57,067)	(1,505,306)
Cash flows from investing activities:			
Purchase of mining equipment	(1,944)	-	(79,769)
Purchase of mining concessions	(217,739)	(12,920)	(377,135)
Payments toward note receivable	(382,000)	-	(382,000)
Deposits	(36,526)	-	(146,331)
Proceeds from discontinued operations	-	-	202,000
Purchase of oil and gas properties	-	(31,700)	(195,790)
Net cash used in investing activities	(638,209)	(44,620)	(979,025)
Cash flows from financing activities:			
Payment toward short term convertible debt	(5,000)	-	(22,000)
Proceeds from short term convertible debt	-	-	71,596
Payments received from joint venture partners for options to purchase interests in mining properties	844,865	-	844,865
Payment toward notes payable	(345,657)	(113,080)	(690,825)
Payments to / proceeds from loans from related parties, net	143,232	780	698,071
Minority interest in net assets of consolidated subsidiaries	310,860	-	310,860
Common stock issued for cash	560,111	157,711	1,412,878
Stock offering cost	-	-	(12,600)
Share subscriptions received	12,500	59,500	5,000
Cash acquired in reverse acquisition	-	-	3,717
Net cash provided by financing activities	1,520,911	104,911	2,621,562

See accompanying notes to these condensed consolidated financial statements.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(CONTINUED)

	For the Six Months Ended		From inception
	June 30,		December 5, 2000
	2006	2005	to
			June 30, 2006
Effect of exchange rate changes on cash	(100,310)	(1,281)	(106,178)
Cash and cash equivalents:			
Net increase for the year	(50,870)	1,943	31,053
Beginning of year	81,923	13,459	-
End of year	\$ 31,053 \$	\$ 15,402	31,053

**SUPPLEMENT DISCLOSURE OF
CASH
FLOW INFORMATION**

Interest paid	\$	-	\$	12,919
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			\$	
			12,919	
Income taxes paid			\$	
	\$	-	-	\$ -
NON-CASH TRANSACTIONS				
Conversion of debt to common stock			\$	
	\$	116,000	-	\$ 712,813
Issuance of common stock for assets			\$	
	\$	-	-	\$ 304,000
Issuance of common stock under share				
receivable for services, from prior period			\$	
	\$	42,000	176,000	\$ 42,000
Purchase of mining concession paid by debt				
and issuance of stock and warrants			\$	
	\$	7,008,115	1,245,537	\$ 8,033,713
Beneficial conversion feature, convertible debt			\$	
	\$	-	22,166	\$ 31,833
Beneficial conversion feature, convertible				
Related party debt			\$	
	\$	184,500	81,333	\$ 359,167
Recoverable value-added taxes			\$	
	\$	1,080,750	-	\$ 1,260,750

See accompanying notes to these condensed consolidated financial statements

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1.

Presentation and Organization and Significant Accounting Policies

Basis of Presentation and Organization

The accompanying Condensed Consolidated Financial Statements of Tara Gold Resources Corp. (the Company) should be read in conjunction with the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005. Significant accounting policies disclosed therein have not changed except as noted below.

The accompanying Condensed Consolidated Financial Statements and the related footnote information are unaudited. In the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the condensed consolidated balance sheets of the Company at June 30, 2006 and December 31, 2005, the condensed consolidated results of its operations and cash flows for the three and six months ended June 30, 2006 and 2005. Results of operations reported for interim periods are not necessarily indicative of results for the entire year.

Tara Gold Resources Corp. (formerly American Stellar Energy, Inc.) was incorporated on December 5, 2000 under the laws of the State of Nevada as Westnet Communication Group, which changed its name to Merchantpark Communications, Inc. on March 29, 2001, and then changed its name to American Stellar Energy, Inc. on May 6, 2004. By special resolution of the shareholders, American Stellar Energy, Inc. changed its name to Tara Gold Resources Corp. on February 9, 2005.

The Company is engaged in the acquisition, exploration and development of resource properties in United States of America and Mexico. In May 2005, the Company acquired 97% of common stock of Corporacion Amermin, S.A. de C.V., which operates in México. In May 2006, the Company established Tara Minerals Corp, which it owns 99.9%.

As used in these Notes to the Condensed Consolidated Financial Statements, the terms the Company, we, us, our similar terms refer to Tara Gold Resources Corp. and, unless the context indicates otherwise its consolidated subsidiaries. The Company's subsidiaries include Corporacion Amermin, S.A. de C.V., which operates in México (Amermin), the San Miguel joint venture (Note 5a), and Tara Minerals Corp.

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1.

Presentation and Organization and Significant Accounting Policies cont d)

Functional Currency

The subsidiary's functional currency is the U.S. dollar. As a result, the financial statements of the subsidiary have been remeasured from Mexican pesos into U.S. dollars using (i) current exchange rates for monetary asset and liability accounts, (ii) historical exchange rates for nonmonetary asset and liability accounts, (iii) historical exchange rates for revenues and expenses associated with nonmonetary assets and liabilities and (iv) the weighted average exchange rate of the reporting period for all other revenues and expenses. The resulting remeasurement loss is recorded in other comprehensive (loss) income.

Current and historical exchange rates are not indicative of what future exchange rates will be and should not be construed as such.

Relevant exchange rates used in the preparation of the financial statements of the subsidiary are as follows for the six months ended June 30, 2006 (denoted in Mexican pesos per one U.S. dollar):

2006

Current exchange rate at June 30,

Ps.

11.4009

Weighted average exchange rate for the six months ended June 30,

Ps.

10.8784

Reclassification

Certain reclassifications, which have no effect on net income (loss), have been made in the prior period financial statements to conform to the current presentation. Specifically, we have reclassified approximately \$13,000 out of Deposits and into Other Receivables, net, relating to the Mexican value-added tax paid on the La Millionaria project.

Cash Equivalents and Marketable Securities

The Company considers all highly-liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. The Company had no cash equivalents at June 30, 2006 or December 31, 2005.

All highly liquid investments with stated maturities of greater than three months are classified as marketable securities. The Company had \$822,000 and \$0 in marketable securities at June 30, 2006 and December 31, 2005, respectively. These marketable securities had a cost basis of \$1,104,000. In accordance with Statement of Financial Accounting Standard No. 130 Reporting Comprehensive, we have accounted for unrealized gain (loss) as a component of other comprehensive income. An unrealized

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1.

Presentation and Organization and Significant Accounting Policies (cont d)

Cash Equivalents and Marketable Securities (cont d)

loss of \$177,000 and \$282,000 was recorded in other comprehensive income for the three and six month period ended June 30, 2006.

Earnings per Share

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128 *Earnings Per Share* which requires the Company to present basic and diluted earnings per share for all periods presented. Basic earnings per share is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through stock options, warrants, convertible debt and other convertible securities.

The following table reconciles basic earnings per share and diluted earnings per share and the related weighted average number of shares:

	For the Three Months Ended June 30, 2006		
	Income	Shares	Per- Share
	(Numerator)	(Denominator)	Amount
Net income			

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Basic EPS:	\$	163,004		
Income available to common stockholders		163,004	80,641,754	\$ 0.00
Warrants		-	769,835	-
Convertible Debt		-	5,800,000	-
Diluted EPS				
Income available to common stockholders				
plus assumed conversions	\$	163,004	87,211,589	\$ 0.00

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TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1.

Presentation and Organization and Significant Accounting Policies (cont d)

	For the Six Months Ended June 30, 2006		
	Income	Shares	Per- Share
	(Numerator)	(Denominator)	Amount
Net income			
Basic EPS:	\$ 1,138,537		
Income available to common stockholders	1,138,537	78,820,935	\$ 0.01
Warrants	-	67,051	-
Convertible Debt	-	1,203,	