

TARA GOLD RESOURCES CORP.
Form 10QSB
April 26, 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, 2005.

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/

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At March 31, 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

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**TARA GOLD RESOURCES CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(UNAUDITED)

JUNE 30, 2005

TARA GOLD RESOURCES CORP AND SUBSIDIARIES
(FORMERLY AMERICAN STELLAR ENGERGY, INC.)
(AN EXPLORATION STAGE COMPANY)
CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

| | June 30, 2005 | December 31, 2004 |
|--|--------------------------|------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 15,402 | \$ 13,459 |
| Accounts receivable | - | 7,984 |
| Other receivable | 180,623 | - |
| Total current assets | 196,025 | 21,443 |
| Assets held for sale, net of accumulated depreciation of \$1,342 and \$656 and net of accumulated depletion of \$2,706 and \$1,832 at June 30, 2005 and December 31, 2004, respectively | 191,742 | 161,602 |
| Mine developments | 1,245,537 | - |
| Total assets | \$ 1,633,304 | \$ 183,045 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accrued expenses | \$ 94,450 | \$ - |
| Notes payable, current portion, net | 561,704 | - |
| Due to related parties, net | 75,615 | 86,359 |
| Total current liabilities | 731,769 | 86,359 |

| | | |
|-----------------------------|------------------|---------------|
| Long-term accrued liability | 180,000 | - |
| Notes payable | 474,000 | - |
| Total liabilities | 1,385,769 | 86,359 |

STOCKHOLDERS EQUITY

Common stock: \$0.001 par value; authorized 100,000,000 shares:

issued and outstanding: 58,744,447 and 49,733,169 shares at June 30, 2005 and December 31, 2004

| | | |
|----------------------------------|----------------|---------------|
| | 58,745 | 49,734 |
| Stock subscription receivable | 31,500 | 148,000 |
| Additional paid-in capital | 2,025,571 | 1,530,145 |
| Accumulated deficit | (1,868,250) | (1,632,443) |
| Other comprehensive income | (31) | 1,250 |
| Total stockholders equity | 247,535 | 96,686 |

| | | |
|--|---------------------|-------------------|
| Total liabilities and stockholders equity | \$ 1,633,304 | \$ 183,045 |
|--|---------------------|-------------------|

See accompanying notes to the consolidated financial statements

TARA GOLD RESOURCES CORP AND SUBSIDIARIES

(FORMERLY AMERICAN STELLAR ENERGY, INC.)

(AN EXPLORATION STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | For the three months ended | | For the six months ended | | From |
|---|----------------------------|-------------|--------------------------|-------------|-------------|
| | June 30, | | June 30, | | inception |
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> | December 5, |
| | | | | | 2000 |
| | | | | | to June 30, |
| | | | | | <u>2005</u> |
| Revenue from website developmental software | \$ - | \$ - | \$ - | \$ - | \$ 168,209 |
| Oil sales | 8,809 | - | 8,809 | - | 16,793 |
| Net revenue | 8,809 | - | 8,809 | - | 185,002 |
| Cost of revenue | | | | | |
| Oil production expenses | 1,095 | - | 1,095 | - | 2,005 |
| Cost of revenue | 1,095 | - | 1,095 | - | 2,005 |
| Gross margin | 7,714 | - | 7,714 | - | 182,997 |
| Operating, general, and administrative expenses | 124,973 | 72,340 | 223,730 | 244,219 | 1,592,250 |
| Net operating loss | (117,259) | (72,340) | (216,016) | (244,219) | (1,409,253) |

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| | | | | | |
|---------------------------------------|--------------|-------------|--------------|--------------|---------------|
| Non-operating (income) expense | | | | | |
| Interest (income) | (81) | - | (129) | - | (571) |
| Interest expense | 11,705 | - | 19,920 | - | 31,307 |
| Loss on disposal of assets | - | - | - | - | 218,836 |
| Loss on extinguishment | - | - | - | - | 209,425 |
| | 11,624 | - | 19,791 | - | 458,997 |
| Net loss | (128,883) | (72,340) | (235,807) | (244,219) | (1,868,250) |
| Other comprehensive income: | | | | | |
| Foreign currency translation | (1,281) | (208) | (1,281) | (364) | (31) |
| Comprehensive loss | \$ (130,164) | \$ (72,548) | \$ (237,088) | \$ (244,583) | \$(1,868,281) |
| Net loss per share, basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.01) | |
| Weighted average number of shares | | | | | |
| of common stock outstanding | 56,416,622 | 47,721,169 | 54,824,203 | 45,978,758 | |

See accompanying notes to the consolidated financial statements.

TARA GOLD RESOURCES CORP AND SUBSIDIARIES

(FORMERLY AMERICAN STELLAR ENGERY, INC.)

(AN EXPLORATION STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | For the Six Months Ended June 30, | | From inception December 5, 2000 to June 30, 2005 |
|--|-----------------------------------|--------------|---|
| | 2005 | 2004 | |
| Cash flows from operating activities: | | | |
| Net loss | \$ (235,807) | \$ (244,219) | \$ (1,868,250) |
| Adjustments to reconcile net loss to net cash provided by | | | |
| operating activities: | | | |
| Depreciation and depletion expense | 1,560 | - | 203,325 |
| Common stock issued for services and other expenses | 55,300 | 115,150 | 487,442 |
| Loss on the sale of oil and gas properties and equipment | - | - | 218,836 |
| Loss on extinguishment of debt | - | - | 147,400 |
| Amortization of beneficial conversion feature | 17,446 | - | 17,446 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 7,984 | - | - |
| Prepays and other receivables | (623) | (57,039) | (623) |
| Accounts payable | - | (7,559) | - |
| Accrued expenses | 97,073 | (2,941) | 97,072 |
| Net cash used in operating activities | (57,067) | (196,608) | (697,351) |
| Cash flows from investing activities: | | | |
| Purchase of equipment | - | - | (20,577) |
| Purchase of mining concession | (12,920) | - | (12,920) |

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| | | | |
|---|-----------|-----------|-----------|
| Purchase of oil and gas properties | (31,700) | (47,961) | (175,213) |
| Net cash used in investing activities | (44,620) | (47,961) | (208,710) |
| Cash flows from financing activities: | | | |
| Payments to / proceeds from loans from related parties, net | 780 | 6,341 | 298,194 |
| Payments on notes payable | (113,080) | - | (113,080) |
| Common stock issued for cash | 157,711 | 164,020 | 565,763 |
| Stock offering cost | - | - | (12,600) |
| Share subscriptions received | 59,500 | 70,000 | 179,500 |
| Cash acquired in reverse acquisition | - | - | 3,717 |
| Net cash provided by financing activities | 104,911 | 240,361 | 921,494 |
| Effect of exchange rate changes on cash | (1,281) | (364) | (31) |
| Cash and cash equivalents: | | | |
| Net increase for the period | 1,943 | (4,572) | 15,402 |
| Beginning of period | 13,459 | 22,192 | - |
| End of period | \$ 15,402 | \$ 17,620 | \$ 15,402 |

See accompanying notes to the consolidated financial statements.

TARA GOLD RESOURCES CORP AND SUBSIDIARIES

(FORMERLY AMERICAN STELLAR ENGERY, INC.)

(AN EXPLORATION STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(CONTINUED)

(UNAUDITED)

| | For the Six Months Ended June | | From inception | |
|---|-------------------------------|------|------------------|--------------|
| | 30, | | December 5, 2000 | |
| | 2005 | 2004 | to | |
| | | | June 30, 2005 | |
| SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION | | | | |
| Interest paid | \$ 12,919 | \$ - | \$ - | \$ 12,919 |
| Income taxes paid | \$ - | \$ - | \$ - | \$ - |
| NON-CASH TRANSACTIONS | | | | |
| Conversion of debt to common stock | \$ - | \$ - | \$ - | \$ 475,913 |
| Issuance of common stock for assets | \$ - | \$ - | \$ - | \$ 304,000 |
| Issuance of common stock under share receivable for services | \$ 176,000 | \$ - | \$ - | \$ 176,000 |
| Purchase of mining concession paid by debt and issuance of stock and warrants | \$ 1,245,537 | \$ - | \$ - | \$ 1,245,537 |
| Beneficial conversion feature, convertible debt | \$ 22,166 | \$ - | \$ - | \$ 22,166 |
| Beneficial conversion feature, convertible related party debt | \$ 81,333 | \$ - | \$ - | \$ 81,333 |

See accompanying notes to the consolidated financial statements.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1.

Basis of 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 consolidated balance sheet for December 31, 2004 was derived from the 2004 10-KSB audited financial statements.

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, 2005 and December 31, 2004, the condensed consolidated results of its operations and cash flows for the three and six months ended June 30, 2005 and 2004. 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 the 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. as a wholly owned subsidiary.

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.

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.

Note 2.

Stockholder s Equity

The authorized common stock of the Company consists of 100,000,000 shares of common shares with par value of \$0.001.

In the first quarter of 2005, the Company issued 5,402,110 shares of common stock. In this period, the Company authorized a private placement of its common stock of up to 5,000,000 shares at \$0.06 per share, with an attached warrant convertible to the Company s common stock at \$0.12 a share, for a total of \$300,000. The shares of common stock are restricted under Rule 144 and have not been registered with the Securities and Exchange Commission. The warrants expire 1 year from the date of issuance. All warrants were converted to common shares by March 2006. As of March 30, 2005, we had received \$79,060 in cash, representing 1,317,667 shares, toward this private placement.

The remaining 4,084,443 shares were issued to consultants and company executives to settle investor relation contracts and executive employment contracts with a value of \$199,800, which reduced our Stock Subscription Receivable by \$144,500. These shares of common stock are also restricted under Rule 144 and have not been registered with the Securities and Exchange Commission.

During the first quarter, our Stock Subscription Receivable increased by \$28,000 for the current quarter executive employment contracts.

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In the second quarter 2005, the Company issued 3,609,168 shares of common stock. In this period, the Company issued an additional 2,621,668 toward our private placement disclosed above, representing \$78,650. We also issued 200,000 common shares valued at \$8,200 and 300,000 warrants as finders fees valued at \$3,727 for the La Currita property. The remaining 787,500 shares were issued to company executives to settle employment contracts with a value of \$31,500. At the same time we accrued a Stock Subscription Receivable for executive compensation for \$31,500.

Note 3.

Mine developments

As disclosed in our 2005 10-KSB as filed with the SEC, on May 12, 2005, the Company executed a provisional mining right purchase agreement with Minera Tres de Mayo, S.A. de C.V. of the rights to 4 concessions, known as La Currita .

Also, On October 23, 2006 the Company amended its June 9 2005 agreement with Minas de Topago S.A. providing for the acquisition of the La Millionaria property.

The Company financed these mining developments through notes payable which were \$1,029,154 as of June 30, 2005.

Please refer to our 2005 10-KSB for additional information and an updated status on these mining developments.

Note 4. Related party transactions

Officers of the Company loaned \$75,615 at June 30, 2005. The loans are unsecured and consist of \$147,000, and \$2,681 accrued interest offset by minor receivables from related parties of \$8,543. Interest-bearing loans earn interest

at 6% per annum from dates of advance and the debt may be converted into common stock of the Company at \$0.03 per share at the option of the officers for one to two years from the date of advance.

All conversion features vested as of January 1, 2005, or if issued in 2005, as of the date of the promissory note. The Company recognized \$81,333 in discount on debt due to the beneficial conversion feature of the debt described above. As of June 30, 2005, the Company has accreted \$15,810 of the debt discount as additional interest for this debt.

Note 5.

Short-term convertible debt, net and non-convertible debt

In May 2005, the Company entered into a short-term convertible debt agreement with an independent third party for \$10,000. The debt carries simple interest of 6% per annum from the date of advance and the debt, plus any accrued interest, may be converted into common stock of the Company at \$0.03 per share at the option of the holder for one year from the date of advance. After the conversion rights to this debt expired the debt holder attempted to convert his notes but was advised by the Company that his conversion rights had expired. Principle and interest have not been paid to date.

In January 2007, the Company filed suit against the debt holder from its May 2005 convertible debt issuance. After the conversion feature expired, the debt holder attempted conversion of the debt to shares. The Company is seeking a ruling that there are no shares owed this debt holder.

In June 2005, the Company entered into a short-term convertible debt agreement with an independent third party for \$5,000. The debt carries simple interest of 6% per annum from the date of advance and the debt, plus any accrued interest, may be converted into common stock of the Company at \$0.03 per share at the option of the holder for one year from the date of advance. The debt, plus accrued interest, was converted to common stock in 2006.

In June 2005, the Company entered into a short-term convertible debt agreement with an independent third party for \$20,000. The debt does not carry interest, but the debt, plus any accrued interest, may be converted

TARA GOLD RESOURCES CORP. AND SUBSIDIARIES

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

into common stock of the Company at an effective rate of \$0.04 per share at the option of the holder. The debt, plus accrued interest, was converted to common stock in 2006.

The Company recognized \$22,166 in discount on debt due to the beneficial conversion feature of the debt described above. As of June 30, 2005, the Company has accreted \$1,636 of the debt discount as additional interest for the debt described above.

In June 2005, the Company also entered into short-term a debt agreement with an independent third party for \$5,000 that was not convertible. The debt, plus accrued interest of \$200, was repaid in July 2005.

Note 6. Subsequent Events

In 2005, the Company determined that its oil and gas properties, primarily in Texas, were not providing the return on investment necessary to achieve a satisfactory growth rate. We have presented these assets as of December 31, 2004 in these financial statements as held for sale. In August 2005, the Company entered into an agreement to sell its working interest in the Corsicana Filed Project for consideration of \$175,000 which was reduced for early payment to \$165,000. All proceeds from the sale were received by September 30, 2005; there are no other expenditures, other contingent liabilities or activities are expected for this property.

In January 2005, we acquired a 45% Working Interest in new property called the Hill Lease located on 15.5 acres in Navarro, Texas which had a well that had been drilled and cased in the Pecan Gap zone, but missed most of the zone on the previous completion. We paid \$31,700 for the working interest. In November 2005, the Company entered into an agreement to sell its working interest in the Hill Lease project for consideration of \$37,000. All proceeds from the sale were received by November 30, 2005; there are no other expenditures, other contingent liabilities or activities are expected for this property.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

In March 2002 Tara Gold's discontinued its software development business and was inactive until early 2004 when it began acquiring and developing oil and gas properties. In 2005 Tara Gold sold its oil and gas properties after it determined that these properties were not economical.

In May 2005 Tara Gold began acquiring mining properties. General and administrative expenses increased during the quarter ended June 30, 2005 as a result of this activity. As of March 31, 2007 Tara Gold had an interest in eleven mining properties in Mexico, including three properties owned by Tara Minerals, a subsidiary of Tara Gold.

As of March 31, 2007 Tara Gold did not have any off balance sheet arrangements.

Tara Gold anticipates that its capital requirements for the twelve months ending December 31, 2007 will be:

Payments for mining properties

\$ 300,000

Mining exploration and development

\$1,000,000

General and administrative expenses

\$ 700,000

Total

\$2,000,000

The capital requirements shown above do not include any capital required by Tara Minerals, Tara Gold's subsidiary.

Tara Gold does not anticipate that it will need to hire any additional employees during the twelve month period ending December 31, 2007.

Tara Gold does not have any commitments or arrangements from any person to provide Tara Gold with any additional capital. If additional financing is not available when needed, Tara Gold may continue to operate in its present mode or it may need to cease operations.

ITEM 3.

CONTROLS AND PROCEDURES

Francis Richard Biscan, Jr., Tara Gold's President and Chief Executive Officer and Clifford A. Brown Tara Gold's Principal Financial and Accounting Officer, have evaluated the effectiveness of Tara Gold's disclosure controls and procedures as of the end of the period covered by this report and in their opinion, Tara Gold's disclosure controls and procedures ensure that material information relating to Tara Gold is made known to them by others within those entities, particularly during the period in which this report is being prepared, so as to allow timely decisions regarding required disclosure. To the knowledge of Mr. Biscan and Mr. Brown there has not been any change in Tara Gold's internal controls over financial reporting during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, Tara Gold's controls. As a result, no corrective actions with regard to significant deficiencies or material weakness in the Company's internal controls were required.

PART II

ITEM 6. EXHIBITS

Number

Title

31

Rule 13a-14(a) Certifications

32

Section 1350 Certifications

SIGNATURES

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

TARA GOLD RESOURCES CORP.

Dated: April 23, 2007

By: /s/ Francis R. Biscan, Jr. _____

Francis R. Biscan, Jr., President and

Chief Executive Officer

Dated: April 23, 2007

By: /s/ Clifford A. Brown

Clifford A. Brown

Principal Financial and Accounting Officer

