

TORTOISE POWER & ENERGY INFRASTRUCTURE FUND INC

Form N-Q

April 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY

Investment Company Act file number **811-22106**

Tortoise Power and Energy Infrastructure Fund, Inc.

(Exact name of registrant as specified in charter)

11550 Ash Street, Suite 300, Leawood, KS 66211

(Address of principal executive offices) (Zip code)

Diane Bono

P. Bradley Adams

11550 Ash Street, Suite 300, Leawood, KS 66211

(Name and address of agent for service)

913-981-1020

Registrant's telephone number, including area code

Date of fiscal year end: **November 30**

Date of reporting period: **February 28, 2019**

Tortoise Power and Energy Infrastructure Fund, Inc.**Schedule of Investments** (unaudited)

February 28, 2019

	Principal Amount	Fair Value
Corporate Bonds — 69.8%		
Crude Oil Pipelines — 10.9%		
Canada — 5.6%		
Enbridge Inc., 5.500%, 07/15/2077	\$ 8,500,000	\$ 7,856,949
United States — 5.3%		
SemGroup Corp., 6.375%, 03/15/2025	6,000,000	5,655,000
SemGroup Corp., 5.625%, 11/15/2023	2,000,000	1,870,000
		15,381,949
Natural Gas/Natural Gas Liquids Pipelines — 30.8%		
Canada — 5.5%		
TransCanada Corporation, 5.625%, 05/20/2075	7,000,000	6,755,000
TransCanada Corporation, 5.300%, 03/15/2077	1,000,000	930,000
United States — 25.3%		
Cheniere Corp., 7.000%, 06/30/2024	4,000,000	4,430,000
Cheniere Corp., 5.875%, 03/31/2025	2,000,000	2,130,020
Columbia Pipeline Group, Inc., 3.300%, 06/01/2020	2,000,000	2,002,220
Florida Gas Transmission Co., LLC, 5.450%, 07/15/2020 ⁽²⁾	1,500,000	1,538,019
Kinder Morgan, Inc., 6.500%, 09/15/2020	4,000,000	4,194,780
Kinder Morgan, Inc., 4.300%, 03/01/2028	3,000,000	3,033,159
Midcontinent Express Pipeline LLC, 6.700%, 09/15/2019 ⁽²⁾	2,000,000	2,004,850
NGPL PipeCo LLC, 4.875%, 08/15/2027 ⁽²⁾	2,000,000	2,011,876
ONEOK, Inc., 4.250%, 02/01/2022	4,500,000	4,597,294
ONEOK, Inc., 7.500%, 09/01/2023	2,000,000	2,273,824
Ruby Pipeline, LLC, 6.000%, 04/01/2022 ⁽²⁾	1,261,364	1,216,622
Southern Star Central Corp., 5.125%, 07/15/2022 ⁽²⁾	3,000,000	2,970,000
Tallgrass Energy LP, 5.500%, 01/15/2028 ⁽²⁾	3,250,000	3,241,875
		43,329,539
Natural Gas Gathering/Processing — 13.4%		
United States — 13.4%		
Blue Racer Midstream, LLC, 6.625%, 07/15/2026 ⁽²⁾	5,900,000	6,018,000
Hess Infrastructure Partners, 5.625%, 02/15/2026 ⁽²⁾	4,160,000	4,180,800
The Williams Companies, Inc., 7.875%, 09/01/2021	5,000,000	5,495,430
The Williams Companies, Inc., 4.550%, 06/24/2024	3,000,000	3,102,779
		18,797,009
Oil and Gas Production — 3.8%		
United States — 3.8%		
Ascent Resources Utica Holdings, LLC, 10.000%, 04/01/2022 ⁽²⁾	1,302,000	1,402,905

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Ascent Resources Utica Holdings, LLC, 7.000%, 11/01/2026 ⁽²⁾	2,000,000	1,930,000
EQT Corporation, 8.125%, 06/01/2019	2,000,000	2,025,422 5,358,327
Power/Utility — 10.9%		
United States — 10.9%		
The AES Corporation, 5.500%, 04/15/2025	4,000,000	4,125,000
Duquesne Light Holdings, Inc., 6.400%, 09/15/2020 ⁽²⁾	3,000,000	3,124,239
Duquesne Light Holdings, Inc., 5.900%, 12/01/2021 ⁽²⁾	2,000,000	2,107,314
NextEra Energy, Inc., 4.800%, 12/01/2077	4,500,000	3,937,500
NV Energy Inc., 6.250%, 11/15/2020	1,000,000	1,051,403
Pattern Energy Group Inc., 5.875%, 02/01/2024 ⁽²⁾	1,000,000	1,018,380 15,363,836
Total Corporate Bonds (Cost \$98,129,746)		98,230,660

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	Shares	Fair Value
Master Limited Partnerships — 32.4%		
Crude Oil Pipelines — 4.2%		
United States — 4.2%		
Adeavor Logistics LP	68,526	\$ 2,410,745
BP Midstream Partners LP	25,000	409,750
PBF Logistics LP	72,237	1,577,656
Shell Midstream Partners, L.P.	89,044	1,592,107
		5,990,258
Natural Gas/Natural Gas Liquids Pipelines — 9.7%		
United States — 9.7%		
Energy Transfer LP	717,787	10,616,068
Enterprise Products Partners L.P.	98,682	2,728,557
EQM Midstream Partners, LP	8,010	311,349
		13,655,974
Natural Gas Gathering/Processing — 5.2%		
United States — 5.2%		
CNX Midstream Partners, LP	47,302	733,654
DCP Midstream, LP	59,580	1,920,263
Western Midstream Partners, LP	138,197	4,624,072
		7,277,989
Refined Product Pipelines — 13.3%		
United States — 13.3%		
Buckeye Partners, L.P.	88,546	2,787,428
Holly Energy Partners, L.P.	147,585	4,305,054
Magellan Midstream Partners, L.P.	36,250	2,206,538
MPLX LP	140,992	4,675,295
NuStar Energy L.P.	102,338	2,651,578
Phillips 66 Partners LP	41,654	2,043,545
		18,669,438
Total Master Limited Partnerships (Cost \$39,913,457)		45,593,659
Common Stock — 29.4%		
Crude Oil Pipelines — 10.6%		
United States — 10.6%		
Enbridge Inc.	220,733	8,164,915
Plains GP Holdings, L.P.	292,549	6,784,211
		14,949,126
Marine Transportation — 1.4%		
Monaco — 1.4%		
GasLog Partners LP	86,675	1,915,518
Natural Gas/Natural Gas Liquids Pipelines — 10.8%		
United States — 10.8%		
Equitrans Midstream Corporation	89,560	1,579,838
ONEOK, Inc.	69,117	4,441,458
Tallgrass Energy LP	408,782	9,250,737
		15,272,033
Natural Gas Gathering/Processing — 6.6%		
United States — 6.6%		
EnLink Midstream LLC	273,224	3,046,448
Targa Resources Corp.	154,583	6,220,420
		9,266,868
Total Common Stock (Cost \$37,888,411)		41,403,545
Preferred Stock — 5.7%		
Crude Oil Pipelines — 1.2%		
United States — 1.2%		
SemGroup Corporation, 7.000%(2)(3)(4)	2,120	1,724,956
Natural Gas Gathering/Processing — 1.4%		
United States — 1.4%		
Targa Resources Corp., 9.500%(2)(3)	1,685	1,950,146

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Power/Utility — 3.1%

United States — 3.1%

DTE Energy, 6.500%, 10/01/2019	39,600	2,193,444
Sempra Energy, 6.000%, 01/15/2021	21,189	2,197,723
		4,391,167
Total Preferred Stock (Cost \$7,602,200)		8,066,269

Short-Term Investment — 0.1%

United States Investment Company — 0.1%

Invesco Government & Agency Portfolio — Institutional Class, 2.30% ⁽⁵⁾ (Cost \$115,089)	115,089	115,089
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Total Investments — 137.4%

(Cost \$183,648,903)

193,409,222

Interest Rate Swap Contracts — 0.0%

\$9,000,000 notional — net unrealized appreciation⁽⁶⁾

77,323

Other Assets and Liabilities — 0.8%

1,076,486

Credit Facility Borrowings — (38.2)%

(53,800,000)

Total Net Assets Applicable to

Common Stockholders — 100.0%

\$ 140,763,031

(1) Calculated as a percentage of net assets applicable to common stockholders.

(2) Restricted securities have a total fair value of \$36,439,982 which represents 25.9% of net assets.

Securities have been valued by using significant unobservable inputs in accordance with fair value procedures and are categorized as level 3 (3) investments.

(4) Security distributions are paid-in-kind. Cash value of the 7.0% coupon is added to the liquidation preference of the preferred stock.

(5) Rate indicated is the current yield as of February 28, 2019.

(6) See Schedule of Interest Rate Swap Contracts.

Schedule of Interest Rate Swap Contracts (unaudited)

February 28, 2019

Counterparty	Maturity Date	Notional Amount	Fixed Rate Paid by TPZ	Floating Rate Received by TPZ	Unrealized Appreciation
Wells Fargo Bank, N.A.	11/29/2019	\$6,000,000	1.330%	3-month U.S. Dollar LIBOR	\$ 57,762
Wells Fargo Bank, N.A.	08/06/2020	3,000,000	2.180%	3-month U.S. Dollar LIBOR	19,561
		\$9,000,000			\$ 77,323

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Various inputs are used in determining the fair value of the Company's investments and financial instruments. These inputs are summarized in the three broad levels listed below:

Level 1 — quoted prices in active markets for identical investments

Level 2 — other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)

Level 3 — significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following table provides the fair value measurements of applicable assets and liabilities by level within the fair value hierarchy as of February 28, 2019. These assets and liabilities are measured on a recurring basis.

Description	Level 1	Level 2	Level 3	Total
Assets				
Investments:				
Corporate Bonds ^(a)	\$ —	\$98,230,660	\$ —	\$ 98,230,660
Master Limited Partnerships ^(a)	45,593,659	—	—	45,593,659
Common Stock ^(a)	41,403,545	—	—	41,403,545
Preferred Stock ^(a)	4,391,167	—	3,675,102	8,066,269
Short-Term Investment ^(b)	115,089	—	—	115,089
Total Investments	91,503,460	98,230,660	3,675,102	193,409,222
Interest Rate Swap Contracts	—	77,323	—	77,323
Total Assets	\$ 91,503,460	\$ 98,307,983	\$ 3,675,102	\$ 193,486,545

(a) All other industry classifications are identified in the Schedule of Investments.

(b) Short-term investment is a sweep investment for cash balances.

The Company utilizes the beginning of reporting period method for determining transfers between levels. There were no transfers to or from level 3 during the period ended February 28, 2019.

Security Valuation

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. The Company primarily owns securities that are listed on a securities exchange or are traded in the over-the-counter market. The Company values those securities at their last sale price on that exchange or over-the-counter market on the valuation date. If the security is listed on more than one exchange, the Company uses the price from the exchange that it considers to be the principal exchange on which the security is traded. If there has been no sale on such exchange or over-the-counter market on such day, the security is valued at the mean between the last bid price and last ask price on such day. Securities listed on the NASDAQ are valued at the NASDAQ Official Closing Price, which may not necessarily represent the last sale price. These securities are categorized as Level 1 in the fair value hierarchy.

Restricted securities are subject to statutory or contractual restrictions on their public resale, which may make it more difficult to obtain a valuation and may limit the Company's ability to dispose of them. Investments in private placement securities and other securities for which market quotations are not readily available are valued in good faith by using fair value procedures. Such fair value procedures consider factors such as discounts to publicly traded issues, time until conversion date, securities with similar yields, quality, type of issue, coupon, duration and rating. If events occur that affect the value of the Company's portfolio securities before the net asset value has been calculated (a "significant event"), the portfolio securities so affected are generally priced using fair value procedures.

An equity security of a publicly traded company acquired in a private placement transaction without registration under the Securities Act of 1933, as amended (the "1933 Act"), is subject to restrictions on resale that can affect the security's liquidity and fair value. If such a security is convertible into publicly traded common shares, the security generally will be valued at the common share market price adjusted by a percentage discount due to the restrictions and categorized as Level 2 in the fair value hierarchy. To the extent that such securities are convertible or otherwise become freely tradable within a time frame that may be reasonably determined, an amortization schedule may be used to determine the discount. If the security has characteristics that are dissimilar to the class of security that trades on the open market, the security will generally be valued and categorized as Level 3 in the fair value hierarchy.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity. Unobservable inputs reflect the Company's own beliefs about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances, which might include the Company's own data. The Company's own data is adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

The Company generally values debt securities at evaluated prices obtained from an independent third-party valuation service that utilizes a pricing matrix based upon yield data for securities with similar characteristics, or based on a direct written broker-dealer quotation from a dealer who has made a market in the security. Debt securities with 60 days or less to maturity at time of purchase are valued on the basis of amortized cost, which approximates fair value. The securities are categorized as level 2 in the fair value hierarchy.

Interest rate swap contracts are valued by using industry-accepted models, which discount the estimated future cash flows based on a forward rate curve and the stated terms of the interest rate swap agreement by using interest rates currently available in the market, or based on dealer quotations, if available, and are categorized as Level 2 in the fair value hierarchy.

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The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended February 28, 2019:

Preferred Stock	
Balance — beginning of period	\$3,761,271
Purchases	—
Return of capital	(28,200)
Sales	—
Total realized gain/loss	—
Change in unrealized gain/loss	(57,969)
Balance — end of period	\$ 3,675,102

Change in unrealized gain/loss on investments still held at February 28, 2019 \$ (57,969)

Certain of the Company's investments are restricted and are valued as determined in accordance with fair value procedures. The following table shows the principal amount or shares, acquisition date(s), acquisition cost, fair value and the percent of net assets which the securities comprise at February 28, 2019.

TPZ:

Investment Security	Investment Type	Principal Amount/Shares	Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value as Percent

TORNADO GOLD INTERNATIONAL CORP.
 (An Exploratory Stage Company)
NOTES TO FINANCIAL STATEMENTS
NOTE 6 STOCKHOLDERS EQUITY (DEFICIT)

Common Stock

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

On April 15, 2005, the Company's officers and directors agreed to redeem an aggregate of 27,172,800 of their shares for \$7,906 or \$.0002909 per share. The shares include 13,586,400 shares from Dr. Abbott, and 6,793,200 shares from each of Messrs. Pescio and Keith. Dr. Abbott's shares were redeemed for \$3,954, and Messrs. Pescio and Keith each received \$1,976 for their shares. These amounts are the equivalent to the

pre-split prices they paid for their shares when they joined the Company in March 2004. The \$7,906 was paid during the three months ended September 30, 2005.

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

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

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

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

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

mining claims.

Options and Warrants

1) In March 2004, the Company issued 60,000 options to former employees of the Company. In June 2006, former management exercised some of their options to purchase a total of 24,800 shares of the Company's common stock for \$3,720.

2) In accordance with a consulting agreement with Access Capital Management Corp., the Company issued Access Capital, 25,000 options in September 2005 to purchase shares of the Company's common stock for \$0.75 per shares. 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. The 150,000 options granted expire on September 28, 2010 unless Access Capital no longer provides services for the Company whereby the options expire one year from the date of termination.

**TORNADO GOLD
INTERNATIONAL CORP.**
(An Exploratory Stage Company)
**NOTES TO FINANCIAL
STATEMENTS**
**NOTE 6 STOCKHOLDERS EQUITY
(DEFICIT) (Cont.)**

Options and Warrants (Cont.)

3) As discussed above, in connection with the issuance of the 625,000 shares of the Company's common stock, the Company granted 625,000 warrants to purchase shares of the Company's common stock at \$.85 per share.

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

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

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

The warrant holders have the right to convert the additional warrants granted into shares of the Company's common

stock for no further consideration based upon a formula indicated in the warrant agreement.

In connection with the July 2006 common stock offering and granting of warrants, the Company agreed to register all common shares relating to the offering with the Securities and Exchange Commission within 180 days of receiving the proceeds from the offering. Under the terms of the Registration Rights Agreement, the investors are entitled to liquidating damages in an amount equal to 1% of the aggregate amount invested for each 30-day period or pro rata for any portion thereof, in which a registration statement was not declared effective by the Securities Exchange Commission. The Company has accrued \$269,766 relating to this breach, which it charged to operations. Certain warrant holders have made demand for payment under the Registration Rights Agreement and the Company is currently in discussions with the investors relating to this matter.

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

	Options/ Warrants Outstanding	Weighed Average Exercise Price
Balance - December 31, 2004	60,000	\$.1500
Granted	775,000	\$.8306
Exercised	-	
Forfeited	-	
Balance - December 31, 2005	835,000	\$.7817
Granted	11,145,000	\$.4654
Exercised	(24,800)	\$ (.1500)

			-
	Forfeited		
Balance	11,955,200	\$.4886
December			
31, 2006			

**TORNADO GOLD
INTERNATIONAL CORP.**
(An Exploratory Stage Company)
**NOTES TO FINANCIAL
STATEMENTS**
**NOTE 6 STOCKHOLDERS EQUITY
(DEFICIT) (Cont.)**

Options and Warrants (Cont.)

	Options/ Warrants Outstanding	Weighed Average Exercise Price
Granted	-	-
Exercised	-	-
Forfeited	-	-
Balance September 30, 2007	11,955,200	\$.4886

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

NOTE 7 INCOME TAXES

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

Deferred tax assets:	
Net operating loss	\$ 1,235,000
Less valuation allowance	(1,235,000)
	\$ -

At September 30, 2007, the Company had federal net operating loss ("NOL") carryforwards of approximately \$3,156,000. Federal NOLs could, if unused, begin to expire in 2024. The increase in deferred tax assets in 2007 of \$239,000 related to the Company's 2007

net operating loss which was reduced to \$0 due to the Company's 2007 valuation allowance.

Utilization of the net operating loss and tax credit carryforwards is subject to significant limitations imposed by the change in control under Internal Revenue Code Section 382, limiting its annual utilization to the value of the Company at the date of change in control multiplied by the federal discount rate.

NOTE 8 RELATED PARTY TRANSACTIONS

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

As discussed in Note 4, the Company entered into agreements with a company owned by Mr. Carl Pescio, a Director of the Company, to acquire mining claims. During the nine months ended September 30, 2007, the Company paid Mr. Pescio \$150,000 related to these agreements.

**TORNADO GOLD
INTERNATIONAL CORP.**
(An Exploratory Stage Company)
**NOTES TO FINANCIAL
STATEMENTS**
**NOTE 8 RELATED PARTY
TRANSACTIONS (Cont.)**

As further discussed in Note 4, the Company entered into an agreement with Messrs. Abbott and Keith to acquire certain mining properties. During the nine months ended September 30, 2007, the Company paid Mr. Abbott \$11,700 and Mr. Keith \$18,300 related to this agreement.

During the nine month ended September 30, 2007 and 2006, the Company incurred consulting fees for services provided by Mr. Earl Abbott and related reimbursed costs totaling \$93,434.63 and \$162,817, respectively. Of the \$93,434.63 incurred in 2007, \$67,489.63 related to mining exploration and \$25,945, related to general administrative activities. Of the \$162,817 incurred in 2006, \$107,714 related to mining exploration and \$55,103 related to general administrative activities.

During the nine months ended September 30, 2007 and 2006, the Company incurred consulting fees of \$15,000 and \$10,000, respectively to Mr. George Drazenovic, its Chief Financial Officer. Mr. Drazenovic was not affiliated with the Company until 2006.

During the nine months ended September 30, 2007, Mr. Carl Pescio advanced \$730,000 which is unsecured, non-interest bearing and due on demand.

**NOTE 9 PRIVATE STOCK
OFFERING**

The Company is offering to the general public 1,250,000 units at price per unit of \$0.20. Each unit consists of one share of

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

Item 2. Management's Discussion and Analysis or Plan of Operation.
FORWARD-LOOKING STATEMENTS

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

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

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

that appear elsewhere in this quarterly report.

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

Corporate History

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

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

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

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

On May 31, 2004, we entered into four preliminary agreements with a company wholly owned by Mr. Pescio to lease four mining properties. As of April 5, 2005, we finalized those agreements, giving us rights to four properties in Nevada that met our preliminary screening criteria and have begun to undertake our more detailed evaluation process.

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

During October 2005, we entered into ten preliminary agreements with Mr. Carl A. Pescio, one of our directors, to acquire ten mineral properties in Nevada. These properties are comprised of approximately 1,600 claims and are subject to availability and were acquired by us without warranty from Mr. Pescio as to total availability and/or mineral potential. We acquired these properties for \$35,000 per property, or \$350,000, with a down payment of \$50,000 and two payments of \$150,000 - one on November 30, 2005, and one on December 30, 2005. We also agreed to issue 100,000 shares of common stock

for each property to Mr. Pescio in the form of warrants, options, or other, to be mutually agreed upon.

Claims Acquired in 2006

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

We have the option, exercisable at any time prior to commercial production on any of the Illipah claims, to reduce production royalties due to the seller from two percent to one percent by paying it \$1,000,000 or its equivalent in gold bullion priced as of the August 24, 2006

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

On September 24, 2007, we entered into a joint venture agreement with Allied Nevada Gold Corp., a company created by Carl Pescio and others to which Carl Pescio assigned all of his interests in 15 separate properties, relating to our joint venture with Allied Nevada Gold Corp. The 15 properties include Brock, Dry Hills, Golconda, Goodwin Hill, HMD, Horseshoe Basin, Illipah, Marr, North Battle Mountain, NT Green, South Lone Mountain, Stargo, Walti, West Whistler and Wilson Peak. Under this joint venture agreement, we are obligated to pay Allied Nevada Gold Corp. \$975,000 on or before February 5, 2008. We also agreed to pay \$375,000 on or before June 30 of each year for annual property payment on these 15 properties. We also agreed to incur certain minimum amounts on field geologic activities during the earn in period. This agreement also provides that once we expended a total of \$1,500,000 on any property, we will have earned a 60% interest in that property. .

Plan of Operations

In July 2006, we closed a financing of US\$1,844,000. A substantial portion of the funds have been devoted to the lease costs of our 15 properties. We used a material portion for administrative overhead and future acquisition opportunities. Thus, we currently have approximately \$5,500 available for exploration on its current properties over the next 12 months, during which period we will continue to pursue additional financing opportunities to further its exploration and acquisition program.

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

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

Future funding levels will also determine the extent and number of properties that we will explore. No certainty can be

ascertained on our overall exploration program until significant funding levels have been achieved.

While most properties will be examined and sampled, we will also analyze the results of all previous work that is publicly available for the properties. If we are able to obtain additional financing, we expect that in Spring 2008, we will perform a small amount of drilling on the Jack Creek property. A ranking system will enable us to decide which properties will undergo detailed work and drill at the earliest opportunity. The remaining properties will be made available for farm-out or for development at a later date, or dropped all-together from further work.

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

Jack Creek. We intend to undertake geological and structural analysis, as well as soil sampling and geophysical surveys, on this property, located in the Independence Mountains mining district about 50 miles north of Elko, Nevada. If we are able to obtain additional financing, the intended work in preparation for an intended drill program on the property is expected to be performed in Spring 2008, and, in aggregate, is expected to cost up to approximately \$100,000.

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

rocks.

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

NT Green. Subject to our ability to obtain further financing, exploration on this property is anticipated to occur during the Spring of 2008 and will focus on delineating drill targets. The property will be prospected by sampling and analysis of mineralized rock. We expect to perform a kinematic structural analysis of the property and expect to produce a more realistic geologic map than those made available in the past. A soil geochemistry program will aid in identifying favorable fault structures and intersections, as well as the centers of the most active hydrothermal activity. A pluton vectoring study is expected to be performed by analysis of all intrusive rocks and their

interpretation. In addition, an airborne magnetic survey is expected to be performed over the property to aid in the discovery of dikes and sills and to aid in the mapping and structural analysis.

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.

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

HMD. Exploration on this property will be directed toward delineating low-risk drill targets. We currently expect that we will undertake a kinematic structural analysis of the exposed silicified rocks along the HMD structure combined with careful rock sampling to locate points along the fault where hydrothermal activity is most intense. We intend to supplement these studies with soil sampling, and the resulting drill targets will be sharpened by detailed IP surveys.

Wilson Peak. A program of kinematic structural analysis, combined with multi-element rock and soil sampling, has been planned for Wilson Peak. Potential drill targets will be sharpened by IP geophysical surveys. Assuming we have raised sufficient funds, permitting and drilling are planned for Spring 2008. We expect that this program will require up to approximately \$50,000 for the next 12 months.

Other Properties. We hope to undertake additional exploration studies on the Stargo, West Whistler, Brock, Horseshoe

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

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

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

The projects described above will be managed by Dr. Earl Abbott. Dr. Abbott holds a Ph.D degree in geology from Rice University where he studied the tectonics of the western U.S. He has spent 34 years exploring for mineral deposits, 26 of them for gold in Nevada, and, with Carl Pescio, he managed an exploration program in Nevada in 1981 resulting in the acquisition of 3 gold orebodies that were mined profitably. Over his career, Dr. Abbott has consulted to the mining industry and has been an officer and director of several junior mining companies. Dr. Abbott is a Certified Professional Geologist by the American Institute of Professional Geologists (AIPG) and past President of the Nevada Chapter. He is also a member and past President of the Geological Society of Nevada (GSN), the Nevada Petroleum Society (NPS), and the Denver Region Exploration Geologists Society (DREGS); and he is a member of the Society of Economic Geologists (SEG), the Society for Mining, Metallurgy, and Exploration (SME), the Geological Society of America (GSA), the Northwest Mining Association (NWMA), the British Columbia & Yukon Chamber of Mines, and the Prospectors and Developer Association of Canada (PDAC). Dr. Abbott is a Qualified Person under the rules of National Instrument 43-101.

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

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

Result of Operations

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

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

Operating Expenses - For the three month period ended September 30, 2007, our total operating expenses were \$91,258 compared to our total operating expenses of \$682,641 in the corresponding prior period. Of the \$91,258 incurred in the three month period ended September 30, 2007, \$21,354 related to our mining exploration, \$69,904 related to general and administrative activities, and \$Nil related to our compensation expense on option grants. Of the \$682,641 incurred in the three month period ended September 30, 2006, \$522,978 related to mining exploration, \$148,074 related to general and administrative activities, and \$11,589 related to our compensation expense on options grants. During the three month period ended September 30, 2007, we accrued \$21,794 in interest expenses on notes payable, compared to interest accruing during the three month period ended September 30, 2006, of \$21,793. No interest has been paid on

notes payable during either period. In the three month period ended September 30, 2007, we also accrued \$56,534 in potential liquidating damages relating to our failure to register the underlying shares issued in our July 2006 private offering. We are currently negotiating with our investors to resolve the accrued potential damages.

For the nine month period ended September 30, 2007, compared to the nine month period ended September 30, 2006.

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

Operating Expenses - For the nine month period ended September 30, 2007, our total operating expenses were \$404,670, compared to our total operating expenses of \$1,007,993 in the corresponding prior period. Of the \$404,670 incurred in the nine month period ended September 30, 2007, \$141,312 related to our mining exploration, \$263,358 related to general and administrative activities, and \$Nil related to our compensation expense on option grants. Of the \$1,007,993 incurred in the nine month period ended September 30, 2006, \$604,245 related to mining exploration, \$357,392 related to general and administrative activities, and \$46,356 related to our compensation expense on options grants. During the nine month period ended September 30, 2007, we accrued \$64,671 in interest expenses on notes payable, compared to interest accruing during the nine month period ended September 30, 2006, of \$59,531. No interest has been paid on notes payable during either period. In addition, during the nine month period ended September 30, 2007, we accrued \$234,739 in potential liquidating damages relating to our failure to register the underlying shares issued in our July

2006 private offering. We are currently negotiating with our investors to resolve the accrued potential damages.

Liquidity and Capital Resources

We had cash totalling \$5,715 and prepaid expenses totalling \$39,692 as of September 30, 2007, making our total current assets \$45,407. We also had mining claims of \$2,188,398, computer equipment of \$2,380, deferred offering costs of \$2,500 and intangible assets of \$5,151, making our total assets \$2,243,836 as of September 30, 2007. As of that date, our available cash and cash equivalents were not sufficient to pay our day-to-day expenditures or to effectuate our business plan. We are committed to continue to seek the necessary financing needed to continue operating through the sale of equity or debt financing, though there is no guarantee we will be able to do so.

As of September 30, 2007, we had a net working capital deficit of \$2,323,292.

Net cash used in operating activities was \$360,161 for the nine month period ended September 30, 2007 compared to \$841,985 for the nine month period ended September 30, 2006.

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

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Mining Costs

Costs incurred to purchase, lease or otherwise acquire property are capitalized when incurred. General exploration costs and costs to maintain rights and leases are expensed as incurred. Management periodically reviews the recoverability of the capitalized mineral properties and

mining equipment. Management takes into consideration various information including, but not limited to, historical production records taken from previous mine operations, results of exploration activities conducted to date, estimated future prices and reports, and opinions of outside consultants. When it is determined that a project or property will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or property.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment (SFAS 123R), which revises SFAS No. 123, Accounting for Stock Based Compensation , and supersedes APB 25. Among other items, SPAS 123R eliminates the use of APS 25 and the intrinsic value method of accounting, and requires companies to recognize in the financial statements the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards. This cost is to be recognized over the period during which an employee is required to provide service in exchange for the award (typically the vesting period). SFAS 123R also requires that benefits associated with tax deductions In excess of recognized compensation cost be reported as a financing cash inflow, rather than as an operating cash flow as required under current literature.

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

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

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

In November 2005, the FASB issued FSP Nos. FAS 115-1 and 124-1. The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. This FSP addresses the

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

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

RISK FACTORS

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

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. We caution the reader that

important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements .

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

Risks Related to Our Business and Our Industry

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

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

We will depend almost exclusively on outside capital to pay for the continued exploration and development of our properties. Such outside capital may include the sale of additional stock and/or commercial borrowing. Capital may not be available to meet our continuing exploration and development costs or, if the capital is available, it may not be on terms acceptable to us. The issuance of additional equity securities by us would result in a significant dilution in the equity interests of our then-current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

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

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

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

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

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

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

protection.

The price of gold can be volatile.

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

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

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

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

Government regulation and environmental regulatory requirements may impact our operations.

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

Amendments to current laws, regulations, and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on us and cause increases in capital expenditures or

production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

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

Adversarial legal proceedings may adversely affect us.

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

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

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

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

Furthermore, our directors and officers may serve as directors or officers of other public resource companies or have significant shareholdings in other public resource companies and, to the extent that such other companies may participate in ventures in which we may participate, our directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. The interests of these companies may differ from time to time. In the event that such a conflict of interest

arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against any resolution involving any such conflict.

We may be subject to uninsured risks.

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

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

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

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

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

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

Risks Related to Owning Our Stock

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

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of convertible debt and equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant

negative effect on our business plans and operations, including our ability to develop new projects and continue our current operations. If our stock price declines, we may not be able to raise additional capital or generate funds from operations sufficient to meet our obligations.

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

The U.S. Securities and Exchange Commission has adopted regulations which generally define penny stock to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The term accredited investor refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information,

must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in, and limit the marketability of, our common stock.

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

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

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

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

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

investors could suffer significant losses if our shares are depressed or illiquid when an investor seeks liquidity and needs to sell our shares.

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

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

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

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

In the event that we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors

interests in us will be diluted and investors may suffer dilution in their net book value per share, depending on the price at which such securities are sold. If we issue any such additional shares, such issuances also will cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change in our control.

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

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

Item 3. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our president and chief executive

officer and our chief financial officer to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2007, the three month period year covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our president, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our president and chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended September 30, 2007 that have materially or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-B

Exhibit Description of Exhibit

- 3(i).1 Articles of Incorporation filed with the Nevada Secretary of State on October 8, 2001 (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
 - 3(i).2 Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on July 7, 2004. (Incorporated by reference to Exhibit 3.1.1 of our Current Report on Form 8-K filed on July 13, 2004).
 - 3(i).3 Certificate of Amendment to Articles of Incorporation filed with the Nevada Secretary of State on August 25, 2004. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on August 31, 2004).
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- 3(ii).1 Bylaws (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
- 4.1 2005 Stock Option Plan. (Incorporated by reference to Exhibit 4.1 of our Amended Annual Report for 2005 filed on September 1, 2005).
- 5.1 Form of Opinion of Bryan Cave LLP regarding the legality of common stock (to be filed by amendment).
- 10.1 Plan of Reorganization and Acquisition, dated May 10, 2002 (Incorporated by reference from our Registration Statement on Form SB-2, filed on September 11, 2002, as amended (Registration No. 333-99443)).
- 10.2 Promissory note between the Company and Gattinara Holdings, Inc. (Incorporated by reference to Exhibit 10 of the Company's Quarterly Report for the second quarter of 2005 on Form 10-QSB filed on August 23, 2005.)
- 10.3 Consulting Agreement with Carl Pescio. (Incorporated by reference to Exhibit 10.12 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.4 Consulting Agreement with Earl Abbott. (Incorporated by reference to Exhibit 10.13 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.5 Consulting Agreement with Stanley Keith. (Incorporated by reference to Exhibit 10.14 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.6 Mining Lease and Option to Purchase Agreement - Goodwin Hill. (Incorporated by reference to Exhibit 10.15 of our Amended Annual Report for 2004 filed on September 1, 2005).
- 10.7

Mining Lease and Option to Purchase Agreement - NT Green. (Incorporated by reference to Exhibit 10.16 of our Amended Annual Report for 2004 filed on September 1, 2005).

10.8 Mining Lease and Option to Purchase Agreement - Wilson Peak. (Incorporated by reference to Exhibit 10.17 of our Amended Annual Report for 2004 filed on September 1, 2005).

10.9 Mining Lease and Option to Purchase Agreement - HMD. (Incorporated by reference to Exhibit 10.18 of our Amended Annual Report for 2004 filed on September 1, 2005).

10.10 Letter Agreement with Carl Pescio dated November 10, 2005. (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on November 14, 2005).

10.11 Promissory note issued to Green Shoe Investment, Inc. (Incorporated by reference to our Quarterly Report for the third quarter of 2005 filed on November 17, 2005).

10.12 Form of Subscription Agreement. (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on July 24, 2006).

10.13 Form of Common Stock Purchase Warrant. (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on July 24, 2006).

10.14 Form of Registration Rights Agreement. (Incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K filed on July 24, 2006).

10.15 Form of Special Warrant. (Incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K filed on July 24, 2006).

- 10.16 Exploration License and Option to Lease Agreement, effective as of October 1, 2005, including, as Exhibit B thereto, Mining Lease and Option to Purchase Agreement, entered on or about April 1, 2006. (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on August 7, 2006).
- 10.17 Option and Joint Venture Agreement, made as of May 1, 2006. (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K filed on August 7, 2006).
- 10.18 Form of Letter Agreement between the registrant and Golden Cycle Gold Corporation, entered on or about August 23, 2006. (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8- K filed on August 29, 2006).
- 10.19* Joint Venture Agreement between the registrant and Allied Nevada Gold Corp. made as of September 24, 2007
- 17.1 Letter of resignation of Earl Abbott as Chief Financial Officer. (Incorporated by reference to our Current Report on Form 8-K filed on March 30, 2006).
- 31.1* Certification of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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SIGNATURES

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

**T O R N A D O G O L D
INTERNATIONAL CORPORATION**

By: /s/ Earl W. Abbott

Earl W. Abbott

CEO, President, Secretary, Treasurer
(Principal Executive Officer)

Date: November 19, 2007

By: /s/ George Drazenovic

George Drazenovic

Chief Financial Officer

(Principal Financial Officer and Principal
Accounting Officer)

Date: November 19, 2007
