

ATHENA SILVER CORP  
Form 10-Q  
August 15, 2013

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2013**

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

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

**Commission file number: 000-51808**

**ATHENA SILVER CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**2010A Harbison Drive #312, Vacaville, CA**

(Address of principal executive offices)

**25-1909408**

(IRS Employer Identification Number)

**95687**

(Zip Code)

Registrant's telephone number, including area code: **(707) 884-3766**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

On August 14, 2013, there were 36,002,320 shares of the registrant's common stock, \$.0001 par value, outstanding.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ATHENA SILVER CORPORATION**  
**(An Exploration Stage Company)****CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 3,098	\$ 12,229
Prepaid expenses	2,332	37,000
Total current assets	5,430	49,229
Mineral rights and properties	1,638,079	1,130,162
Total assets	\$ 1,643,509	\$ 1,179,391
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 88,423	\$ 128,935
Accrued liabilities	29,250	63,334
Due to related parties	28,659	8,640
Advances payable - related parties	-	1,000
Derivative warrant liability	33,015	51,823
Convertible notes payable - related party	885,000	555,000
Total current liabilities	1,064,347	808,732
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, \$.0001 par value, 5,000,000 shares		
authorized, none outstanding	-	-
Common stock - \$.0001 par value; 100,000,000 shares authorized, 36,002,320 and 35,002,320		
issued and outstanding	3,600	3,500
Additional paid-in capital	6,580,048	6,086,148
Accumulated deficit - prior to exploration stage	(3,601,431)	(3,601,431)
Accumulated deficit - exploration stage	(2,403,055)	(2,117,558)
Total shareholders' equity	579,162	370,659
Total liabilities and shareholders' equity	\$ 1,643,509	\$ 1,179,391

See notes to unaudited condensed consolidated interim financial statements.

**ATHENA SILVER CORPORATION**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(unaudited)*

	Three months ending June 30,		Six months ending June 30,		Inception (January
	2013	2012	2013	2012	1, 2010) through
					June 30, 2013
Operating expenses:					
Exploration costs	\$ 8,591	\$ 17,105	43,046	80,764	\$ 882,414
Other operating costs	1,150	340	1,490	340	113,272
General and administrative expenses	200,322	130,202	240,557	202,514	1,067,252
Total operating expenses	210,063	147,647	285,093	283,618	2,062,938
Operating loss	(210,063)	(147,647)	(285,093)	(283,618)	(2,062,938)
Other income (expense):					
Interest expense	(11,073)	(1,002)	(19,213)	(2,947)	(41,768)
Change in fair value of warrant liability	3,942	(429)	18,808	(429)	2,878
Loss on extinguishment of debt - related parties	-	(57,366)	-	(57,366)	(236,741)
Other income	-	1	1	1	980
Total other income (expense)	(7,131)	(58,796)	(404)	(60,741)	(274,651)
Loss from continuing operations	(217,194)	(206,443)	(285,497)	(344,359)	(2,337,589)
Net loss from discontinued operations	-	-	-	-	(65,466)
Net loss	\$ (217,194)	\$ (206,443)	\$ (285,497)	\$ (344,359)	\$ (2,403,055)
Basic and diluted net loss per common share					
Basic and diluted net loss per share from continuing operations	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
Basic and diluted net loss per common share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	
Basic and diluted weighted-average common shares outstanding	36,002,320	33,265,735	35,715,027	32,840,540	

See notes to unaudited condensed consolidated interim financial statements.

**ATHENA SILVER CORPORATION**  
**(An Exploration Stage Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(unaudited)*

	<b>Six Months Ended June 30,</b>		<b>Inception of</b>
	<b>2013</b>	<b>2012</b>	<b>Exploration Stage</b>
			<b>(January 1, 2010)</b>
			<b>through</b>
			<b>June 30, 2013</b>
Cash flows from operating activities:			
Net loss	\$ (285,497)	\$ (344,359)	\$ (2,403,055)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred financing costs	-	-	5,000
Share-based compensation expense	154,000	13,725	207,700
Common stock and warrants issued for services	-	-	55,773
Derivative warrants issued for services	-	35,793	35,893
Change in fair value of derivative warrant liability	(18,808)	429	(2,878)
Loss on extinguishment of debt - related parties	-	57,366	237,366
Gain on extinguishment of accounts payable	-		(625)
Loss on sale of discontinued operations	-	-	9,892
Changes in operating assets and liabilities:			
Account receivable	-	-	11,104
Prepaid expenses	34,668	36,517	(1,332)
Inventory	-	-	46,385
Other assets	-	-	11,036
Accounts payable	(40,512)	41,978	146,654
Accrued liabilities and other liabilities	23,018	448	105,409
Net cash used in operating activities	(133,131)	(158,103)	(1,535,678)

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See notes to unaudited condensed consolidated interim financial statements.



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**ATHENA SILVER CORPORATION**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(unaudited)*

	<b>Six Months Ended June</b>		<b>Inception of</b>
	<b>30,</b>		<b>Exploration</b>
	<b>2013</b>	<b>2012</b>	<b>Stage (January</b>
			<b>1, 2010) through</b>
			<b>June 30, 2013</b>
Cash flows from investing activities:			
Acquisition of mineral rights	(205,000)	(207,169)	(703,098)
Investment in nonmarketable equity securities	-	-	(7,348)
Cash used in disposition of fixed assets, intangibles and other	-	-	(82)
Net cash used in investing activities	(205,000)	(207,169)	(710,528)
Cash flows from financing activities:			
Net change in advances payable - related parties	(1,000)	3,800	(13,295)
Borrowings from notes payable - related parties	330,000	310,000	1,195,000
Repayments of notes payable - related parties	-	-	(38,750)
Proceeds from sale of common stock, net	-	60,000	1,106,206
Net cash provided by financing activities	329,000	373,800	2,249,161
Net increase (decrease) in cash	(9,131)	8,528	2,955
Cash at beginning of period	12,229	4,672	143
Cash at end of period	\$ 3,098	\$ 13,200	\$ 3,098
Supplemental disclosure of cash flow information			
Cash paid for interest	\$ -	\$ -	\$ 6,714
			\$ -
Cash paid for income taxes	\$ -	\$ -	
Supplemental disclosure of non-cash investing and financing activities:			
Increase (decrease) in accrued liabilities applicable to mineral rights	\$ (37,083)	\$ (32,084)	\$ 26,521
Common stock issued for mineral rights	\$ 340,000	\$ 12,385	\$ 924,653
Common stock issued for accounts payable	\$ -	\$ 26,000	\$ 125,700
Common stock issued for due to related parties	\$ -	\$ 8,197	\$ 8,197
Common stock issued for short-term debt - related parties	\$ -	\$ -	\$ 616,000
Common stock issued for deferred financing costs	\$ -	\$ -	\$ 5,000
Spin-off dividend	\$ -	\$ 336,000	\$ 7,348

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Common stock issued for indemnity agreement - related parties:

Indemnification - GWBC accounts payable	\$	-	\$	-	\$	201,404
Indemnification - GWBC accrued liabilities	\$	-	\$	-	\$	177,899
Indemnification - GWBC short-term debt	\$	-	\$	-	\$	295,697

See notes to unaudited condensed consolidated interim financial statements.

**ATHENA SILVER CORPORATION**

**(An Exploration Stage Company)**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Organization, Basis of Presentation, and Going Concern:**

We are an exploration stage company and our principal business is the acquisition and exploration of mineral resources. We were incorporated on December 23, 2003, in Delaware and we became an exploration stage company on January 1, 2010. We have not presently determined whether our mineral properties contain mineral reserves that are economically recoverable.

***Basis of Presentation***

Athena Silver Corporation ( we, our, or Athena ) prepared these condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ( GAAP ). The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information in accordance with Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2013, are not necessarily indicative of the results for the full year. While we believe that the disclosures presented herein are adequate and not misleading, these interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the footnotes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

***Going Concern***

Our condensed consolidated financial statements have been prepared on a going concern basis, which assumes that we will be able to meet our obligations and continue our operations during the next 12 months. Asset realization values may be significantly different from carrying values as shown on our condensed consolidated financial statements and do not give effect to adjustments that would be necessary to the carrying values of assets and liabilities should we be unable to continue as a going concern. At June 30, 2013, we had not yet achieved profitable operations and we have accumulated losses of \$6,004,486 since our inception. We expect to incur further losses in the development of our business, all of which casts substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern depends on our ability to generate future profits and/or to obtain the necessary financing to meet our obligations arising from normal business operations when they come due. We anticipate that additional funding will be in the form of equity financing from the sale of our common stock. We may also seek to obtain loans from officers, directors or significant shareholders.



**Note 2 Mineral Rights and Properties:**

Our mineral rights and mineral properties consist of:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Mineral properties Section 13 Property	\$ 135,684	\$ 135,684
Mineral rights Langtry Project	1,502,395	994,478
Mineral rights and properties	\$ 1,638,079	\$ 1,130,162

***Mineral Properties***

In May 2012, we purchased 661 acres of land ( Section 13 Property ) in fee simple for \$135,684 cash, located in San Bernardino County, California, that was sold in a property tax auction conducted on behalf of the County. The parcel is all of Section 13 located in Township 7 North, Range 4 East, San Bernardino Base & Meridian.

The Section 13 property is near the Lava Beds Mining District and has evidence of historic mining. It is adjacent to both the Silver Cliffs and Silver Bell historic mines. The property is located in the same regional geologic area known as the Western Mojave Block that includes our flagship Langtry Project. The property is approximately 28 miles southeast of our Langtry Project.

***Mineral Rights***

In March 2010, we entered into a 20 year Mining Lease with Option to Purchase (the Langtry Lease or the Lease ) granting us the exclusive right to explore, develop and conduct mining operations on a group of 20 patented mining claims that comprise our Langtry Property.

On February 20, 2013, and representing payment in full of the equity consideration in accordance with the terms of the Lease, we issued to the lessor 1,000,000 common shares valued at \$340,000, or \$0.34 per share, which was the closing bid price of our common stock on February 20, 2013. We capitalized the \$340,000 fair value of common shares issued as an increase to mineral rights and properties on our balance sheet.

On March 15, 2012, in accordance with the terms of the Lease, we issued to the lessor 53,846 common shares valued at \$12,385, or \$0.23 per share, which was the closing bid price of our common stock on March 14, 2012. We capitalized the \$12,385 fair value of common shares issued as an increase to mineral rights and properties on our balance sheet.

On November 28, 2012, the Lease was amended to change certain provisions of the original agreement. The following is a summary of the material provisions of the Langtry Lease, as modified by Amendment No. 1:

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The Lease commenced March 15, 2010, and has a term of 20 years expiring March 15, 2030; with an option to extend an additional five years to 2035, and thereafter for so long as there is commercial silver production (defined as at least 100,000 troy ounces of aggregate production).

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Upon signing, we paid the lessor \$50,000 in cash and issued 220,000 common shares with a fair value of \$70,400, or \$0.32 per share, as initial consideration for granting us the Lease.

The original Lease required us to issue to the lessor, on March 15th of each year 2011 through 2015, additional common shares so that the lessor retains an undiluted 1% equity interest in Athena as additional consideration for granting us the Lease (an Anti-dilution Provision ).

On March 15, 2011, we issued the lessor 228,940 common shares so that the lessor retained an additional undiluted 1% interest in Athena as part of our first year lease rental payment in addition to our annual cash rental payments described below.

A second Anti-dilution Provision under the Lease requires us to issue to the lessor, on March 15th of each year 2011 through 2015, additional common shares so that the lessor retains an additional undiluted 1% equity interest in Athena on those dates as lease rental payments in addition to our annual cash rental payments described below. On March 16, 2012, we issued the lessor an additional 53,846 shares of common stock in satisfaction of this Anti-Dilution provision.

The Lease requires us to pay annual cash lease rental payments, in arrears, of \$60,000 to \$100,000 on March 15th of each year during the first five years of the Lease.

The original Lease required us to pay annual cash lease rental payments, in arrears, of \$100,000 to \$200,000 (or the market price of 10,000 to 20,000 troy ounces of silver, whichever is higher) on March 15th of each year during the final 15 years of the Lease (i.e. 2016 through 2030) (the Silver Price Link to Rent ).

The lessor is entitled to a royalty of 3% of mineral production beginning in the sixth year of the Lease.

The Amendment No. 1 (the Amendment ) modified the foregoing provisions in the following manner:

1. Concurrently with the execution of the Amendment, we issued to the lessor an aggregate of 1,030,864 common shares, of which 30,864 shares were issued under the Anti-Dilution provisions and 1.0 million shares were part of the Equity Consideration under the Amendment;

2. On February 20, 2013, we issued to lessor an additional 1.0 million common shares representing payment in full of the Equity Consideration under the Amendment.

3. We agreed to make the following cash payments to the lessor (the Cash Consideration):

i. \$125,000 on or before November 30, 2012, which has been paid

ii. \$125,000 on or before February 15, 2013, which has been paid

iii. \$250,000 on or before January 15, 2014

iv. \$500,000 on or before January 15, 2015; and

v. \$1.0 million on or before January 15, 2016.

Upon making the first two installment payments, the Anti-Dilution Provisions of the Lease were eliminated in their entirety.

Upon payment in full of both the Equity Consideration (which has been completed) and Cash Consideration, the lessor's 3% net smelter royalty on production will be eliminated.

Rent for the years 2016 through 2020 is capped at \$100,000 per year unless Commercial Silver Production has been achieved.

We have the right to eliminate the Silver Price Link to Rent from 2020 through March 15,





2026 by making a one-time payment to lessor in an amount equal to the London Silver Fix price of 25,000 troy ounces of silver. The elimination of the Silver Price Link to Rent will be rescinded, however, if and when we achieve Commercial Silver Production.

We also have an option to purchase the Langtry Property at any time for a purchase price of \$10.0 million plus transaction costs.

Under the Langtry Lease we declared our intention to expend a minimum of \$2.0 million in permitting and other preproduction costs prior to March 15, 2015. If we fail to make these expenditures we will be deemed to be in breach of the Lease and the lessor will have the option to terminate the Lease by giving us 30 days written notice. The Lease also provides us with the right to terminate the Lease without penalty on March 15th of each year during the lease term by giving the lessor 30 days written notice of termination on or before February 13th of each year.

The Langtry Property is also subject to a three percent (3%) net smelter royalty in favor of Mobil Exploration and Producing North America Inc. from the sale of concentrates, precipitates or metals produced from ores mined from the royalty acreage. In addition, there is an additional incremental 2% royalty on net smelter proceeds from silver sales above \$10.00 per troy ounce plus an additional incremental 2% royalty on net smelter proceeds from silver sales above \$15.00 per troy ounce.

During the term of the Lease, Athena Minerals has the exclusive right to develop and conduct mining operations on the Langtry Property. Future lease payments and/or exploration and development of this property will require new equity and/or debt capital.

During the six months ended June 30, 2013 we recorded \$507,917 of lease rental expenses and capitalized these amounts as an increase to mineral rights and properties.

**Note 3 - Fair Value of Financial Instruments:**

Financial assets and liabilities recorded at fair value in our condensed consolidated balance sheets are categorized based upon a fair value hierarchy established by GAAP, which prioritizes the inputs used to measure fair value into the following levels:

Level 1 Quoted market prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable and can be corroborated by observable market data.

Level 3 Inputs reflecting management's best estimates and assumptions of what market participants would use in pricing assets or liabilities at the measurement date. The inputs are unobservable in the market and significant to the valuation of the instruments.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below:

	Carrying Value at June 30, 2013	Fair Value Measurement at June 30, 2013		
		Level 1	Level 2	Level 3
Derivative warrant liability	\$ 33,015	\$	\$	\$ 33,015

The carrying amount of cash and cash equivalents, prepaid expenses, accounts payable and accrued liabilities approximates fair value because of the short-term nature of these financial instruments. We are unable to estimate the fair value of amounts due to related parties, including advances payable and our credit facility to related parties, without incurring excessive costs because quoted market prices are not available, we have not developed the valuation model necessary to make these estimates, and the cost of obtaining independent valuations would be excessive.

**Note 4 Derivative Warrant Liability:**

Effective February 7, 2012, and pursuant to an Advisor Agreement with GVC Capital, LLC dated January 30, 2012, we sold and issued warrants exercisable to purchase an aggregate of 143,000 common shares at an exercise price of \$0.25 per share at any time within five years of the date of their issuance in consideration of \$100 cash and investor relation services with a fair value of \$35,793. The warrants have anti-dilution provisions, including a provision for adjustments to the exercise price and to the number of warrant shares purchasable if we issue or sell common shares at a price less than the then current exercise price.

We determined that the warrants were not afforded equity classification because the warrants are not considered to be indexed to our own stock due to the anti-dilution provision. Accordingly, the warrants are treated as a derivative liability and are carried at fair value. We estimate the fair value of these derivative warrants at each balance sheet date and the changes in fair value are recognized in earnings in our condensed consolidated statement of operations under the caption change in fair value of derivative warrant liability until such time as the derivative warrants are exercised or expire.

The change in fair value of our derivative warrant liability is as follows:

**Six Months Ended June 30,  
2013**

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Balance	December 31, 2012	\$	51,823
Total (gains) or losses (realized/unrealized):			
	Included in net loss		(18,808)
Balance	June 30, 2013	\$	33,015

We estimate the fair value of our derivative warrants on the date of issuance and each subsequent balance sheet date using the Black-Scholes option pricing model, which includes assumptions for expected dividends, expected share price volatility, risk-free interest rate, and expected life of the warrants. Currently, we believe that the potential impact to the fair value of our derivative warrants attributable to the anti-dilution provision is insignificant and we will consider using a lattice model for purposes of valuation if and when the fair value of the anti-dilution provision becomes significant. Our expected volatility assumption is based on our historical weekly closing price of our stock over a period equivalent to the expected remaining life of the derivative warrants.

The following table summarizes the assumptions used to value our derivative warrants at June 30, 2013:

<b>Fair value assumptions</b>	<b>derivative warrants:</b>	<b>Six Months Ended June 30, 2013</b>
Risk free interest rate		0.66%
Expected term (years)		3.6
Expected volatility		151%
Expected dividends		0%

**Note 5 Convertible Notes Payable Related Parties:**

*Notes Payable Related Parties*

Effective July 18, 2012, we entered into a Credit Agreement with Mr. Gibbs, a significant shareholder, providing us with an unsecured credit facility in the maximum amount of \$1,000,000. The aggregate principal amount borrowed, together with interest at the rate of 5% per annum, is due in full on July 31, 2014, and is convertible, at the option of the lender, into common shares at a conversion price of \$0.50 per share. All outstanding amounts due Mr. Gibbs under notes payable were transferred into the credit agreement effective July 18, 2012.

The new credit facility also contains customary representations and warranties (including those relating to organization and authorization, compliance with laws, payment of taxes and other obligations, absence of defaults, material agreements and litigation) and customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events).

Total amounts owed under the credit facility notes payable were \$885,000 and \$555,000 at June 30, 2013 and December 31, 2012, respectively. Borrowings under notes payable to Mr. Gibbs for the six months ended June 30, 2013 were as follows:

Date	Type of Loan	Six Months Ended June 30, 2013	
		Amount	Interest Rate
January 18, 2013	Credit Note	\$ 50,000	5%
February 20, 2013	Credit Note	125,000	5%
March 21, 2013	Credit Note	100,000	5%
April 26, 2013	Credit Note	25,000	5%
May 20, 2013	Credit Note	15,000	5%
June 10, 2013	Credit Note	15,000	5%
Borrowings from Notes payable - related parties		\$ 330,000	

No principal or interest payments were made to Mr. Gibbs during the six months ended June 30, 2013. Total accrued interest on the notes payable to Mr. Gibbs was \$27,475 and \$8,381 at June 30, 2013 and December 31, 2012, respectively.

***Interest Expense Related Parties:***

Total related party interest expense was \$10,695 and \$18,835 for the three and six months ended June 30, 2013, respectively. For the three and six months ended June 30, 2012, total related party interest expense was \$1,002 and \$2,947, respectively.

**Note 6 - Commitments and Contingencies:**

Under the Langtry Lease we declared our intention to expend a minimum of \$2.0 million in permitting and other preproduction costs prior to March 15, 2015. If we fail to make these expenditures we will be deemed to be in breach of the Lease and the lessor will have the option to terminate the Lease by giving us 30 days written notice. The Lease also provides us with the right to terminate the Lease without penalty on March 15th of each year during the lease term by giving the lessor 30 days written notice of termination on or before February 13th of each year.

**Note 7 Stockholders Equity:**

On March 15, 2012, in accordance with the terms of the Lease, we issued to the lessor 53,846 common shares valued at \$12,385, or \$0.23 per share, which was the closing price of our common stock on March 14, 2012. We capitalized the \$12,385 fair value of common shares issued as an increase to mineral rights and properties in our condensed consolidated balance sheets.

On May 10, 2012, we converted \$280,000 of notes payable and \$6,830 of accrued interest payable to Mr. Gibbs into 1,147,324 common shares with a fair value of \$344,196, or \$0.30 per share, which was the closing price of our common shares on May 9, 2012. As a result, we recognized a \$57,366 loss on extinguishment of debt.

On May 11, 2012, we sold 240,000 shares of common stock at a price of \$0.25 per share to Mr. Gibbs for \$60,000 cash.

On June 16, 2012, we converted \$26,000 of accounts payable into 100,000 shares of common stock valued at \$0.26 per share, which was the closing bid price on July 16, 2012. No gain or loss was realized upon the conversion.



On July 18, 2012, we converted \$6,250 of accounts payable into 25,000 shares of common stock valued at \$0.25 per share, was the closing price of our common shares on July 17, 2012. No gain or loss was realized upon the conversion.

On November 29, 2012, in accordance with the terms of the Lease, we issued to the lessor 1,030,864 common shares valued at \$329,876, or \$0.32 per share, which was the closing price of our common stock on November 28, 2012. We capitalized the \$329,876 fair value of common shares issued as an increase to mineral rights and properties in our condensed consolidated balance sheets.

On February 20, 2013, and representing payment in full of the equity consideration in accordance with the terms of the Lease, we issued to the lessor 1,000,000 common shares valued at \$340,000, or \$0.34 per share, which was the closing bid price of our common stock on February 20, 2013. We capitalized the \$340,000 fair value of common shares issued as an increase to mineral rights and properties in our condensed consolidated balance sheets.

**Note 8 - Share-based Compensation*****2004 Equity Incentive Plan***

Our 2004 Equity Incentive Plan provides officers, directors, selected employees and outside consultants an opportunity to acquire or increase a direct proprietary interest in our operations and future success. Our Board of Directors currently administers the plan and makes all decisions concerning which officers, directors, employees and other persons are granted awards, how many to grant to each recipient, when awards are granted, the terms and conditions applicable to awards, how the plan should be interpreted, whether to amend or terminate the plan and whether to delegate administration of the plan to a committee. A maximum of 500,000 common shares are subject to the plan. The plan provides for the grant of stock options, stock appreciation rights, or shares of stock. Stock options may be non-qualified stock options or incentive stock options except that stock options granted to outside directors, consultants or advisers providing services to us shall in all cases be non-qualified stock options. The plan will terminate on December 10, 2014, unless the administrator terminates the plan earlier. As of June 30, 2012, 350,000 common shares were available for grant under the plan.

***Stock Options***

A summary of our stock option activity for the year ended December 31, 2012 and six months ended June 30, 2013 is as follows:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at December 31, 2011	200,000	\$0.45
Options expired	(50,000)	\$0.50
Outstanding at December 31, 2012	150,000	\$0.43
Options granted	600,000	\$0.26
Outstanding at June 30, 2013	750,000	\$0.29

On April 8, 2013, we granted 200,000 options with a grant date fair value of \$0.26 per share to each of our three directors, which were 100% vested on the grant date. These options expire on April 8, 2018, and have an exercise price of \$0.26 per share, which was the market price of our common stock on the date of grant. At June 30, 2013, these options have a weighted average remaining contractual life of 4.8 years.

The options granted on April 8, 2013 were determined to have a fair value of \$154,000, which was charged to expense on the grant date. The following table summarizes the assumptions used to value stock options granted:

**Fair value assumptions    stock options granted April 8, 2013:**

Risk free interest rate	0.70%
Expected option life	5 years
Expected volatility	151%
Expected dividends	0%

On July 14, 2011, we granted 150,000 options with a grant date fair value of \$0.36 per share to a director, which vested 50% on the grant date, and the remaining 50% vested on August 1, 2012. These options expire on August 1, 2016, and have an exercise price of \$0.43 per share, which was the market price of our common stock on the date of grant. At June 30, 2013, these options have a weighted average remaining contractual life of 3.1 years.

The options granted on July 14, 2011 were determined to have a fair value of \$16,012, which was charged to expense during the year ended December 31, 2012. The following table summarizes the assumptions used to value stock options granted:

**Fair value assumptions stock options granted July 14, 2011:**

Risk free interest rate	0.66%
Expected option life	2.8
Expected volatility	166%
Expected dividends	0%

Stock compensation expenses were \$154,000 and \$13,725 for the six months ended June 30, 2013 and 2012, respectively, and are included in general and administrative expenses in the accompanying consolidated statements of operations.

**Note 9 Related Party Transactions:**

The following information is provided in addition to the related party transactions described in Note 5, Notes Payable Related Parties, Note 6, Note 7, Stockholders Equity, and Note 8, Share-based Compensation.

***Conflicts of Interests***

Magellan Gold Corporation is a company under common control. Mr. Power is a significant shareholder, director and CEO of both Athena and Magellan. Mr. Gibbs is a significant shareholder in both Athena and Magellan. Athena and Magellan are both exploration stage companies involved in the business of acquisition and exploration of mineral resources.

Silver Saddle Resources, LLC is also a company under common control. Mr. Power and Mr. Gibbs are the owners and managing members of Silver Saddle. Athena and Silver Saddle are both exploration stage companies involved in the business of acquisition and exploration of mineral resources.

The existence of common ownership and common management could result in significantly different operating results or financial position from those that could have resulted had Athena, Magellan and Silver Saddle been autonomous.

***Management Fees    Related Parties***

On January 1, 2011, we entered into a month-to-month management agreement with Mr. Power requiring a monthly payment, in advance, of \$2,500 as consideration for the day-to-day management of Athena. Effective January 1, 2013 the agreement was extended through the end of 2013. During each of the six months ended June 30, 2013 and 2012, we incurred \$7,500 of management fees to

Mr. Power and these costs are included in general and administrative expenses in our consolidated statements of operations. As of June 30, 2013 all management fees due Mr. Power had been paid.

***Due to Related Parties***

Accounts payable and accrued interest payable owed to related parties are included in due to related parties in our condensed consolidated balance sheets as follows:

<b>Related Party</b>	<b>June 30, 2013</b>		<b>December 31, 2012</b>	
Accounts payable Mr. Power	\$	1,185	\$	-
Accrued interest payable Mr. Gibbs		27,474		8,640
Due to related parties - total	\$	28,659	\$	8,640

***Advances Payable - Related Parties***

Non-interest-bearing advances payable to related parties are as follows:

<b>Related Party</b>	<b>June 30, 2013</b>		<b>December 31, 2012</b>	
Mr. Power	\$	-	\$	1,000

During the six months ended June 30, 2013, Mr. Power advanced the Company an additional \$750 and was repaid the balance of \$1,750.

During the six months ending June 30, 2012, we borrowed and repaid non-interest-bearing advances from/ to related parties as follows:

	<b>Six Months Ended March 31, 2012</b>			
	<b>Advances</b>		<b>Repayments</b>	
Mr. Power <sup>(1)</sup>	\$	21,875	\$	18,075
Silver Saddle Resources, LLC		3,600		3,600
	\$	25,475	\$	21,675

(1)

Includes entities controlled by Mr. Power

**Note 10: Subsequent Events**

The Company has evaluated subsequent events through the time of issuance of the financial statements.

On August 8, 2013, the Company borrowed an additional \$15,000 from Mr. Gibbs, a significant shareholder, under the July 18, 2012 credit agreement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We use the terms Athena, we, our, and us to refer to Athena Silver Corporation and its consolidated subsidiary.

The following discussion and analysis provides information that management believes is relevant for an assessment and understanding of our results of operations and financial condition. This information should be read in conjunction with our audited consolidated financial statements which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, filed with the Commission on April 15, 2013, and our interim unaudited condensed consolidated financial statements and notes thereto included with this report in Part I. Item 1.

### Forward-Looking Statements

Some of the information presented in this Form 10-Q constitutes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements that include terms such as may, will, intend, anticipate, estimate, expect, continue, believe, like, as well as all statements that are not historical facts. Forward-looking statements are inherently subject to risks and uncertainties that could cause actual results to differ materially from current expectations. Although we believe our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results will not differ materially from expectations.

All forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

### Business Overview:

On March 15, 2010, we entered into a Mining Lease with Option to Purchase (the Langtry Lease or the Lease ) which granted us a 20 year lease to develop and conduct mining operations on a 413 acre group of 20 patented mining claims located in the Calico Mining District (the Langtry Property , or the Property ), also with an option to purchase the Property. This Property is located at the base of the Calico Mountains northeast of Barstow, in San Bernardino County, California.

During the first quarter of 2011, we successfully completed a 13-hole drilling program on our Langtry Property in an effort to validate the results of an earlier drilling program undertaken by a previous owner of the Property during the 1960 s and 1970 s and to further define silver deposits near historic workings on the Property. During the remainder of 2011 and during the first quarter of 2012, we evaluated the results of our drilling program and in May 2012, we issued a NI 43-101 Technical Report. The NI 43-101 report followed the guidelines specified by the Canadian Council of Professional Geoscientists and included a description of the Langtry Property and location, history, geological setting, deposit types, mineralization, exploration, drilling, sampling method and approach, sample preparation, analyses and security, data verification, mineral resource estimates, as well as other relevant data and information.





Subject to available capital, our primary focus will be to continue our evaluation of the Langtry Property mineral resources including possible additional exploration drilling, assays, metallurgical testing and analysis, environmental studies and preliminary permitting and re-estimation of our mineral resources. Our NI 43-101 report estimated that these efforts may take approximately one year to complete at a preliminary cost estimate of \$625,000.

Our ongoing mineral lease payments, exploration and development efforts and general and administrative expenses will require additional capital.

### Results of Operations:

Our analysis presented below is organized to provide the information we believe will be instructive for understanding our historical performance and relevant trends going forward. This discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this Annual Report on Form 10-K.

#### *Results of Continuing Operations for the Three Months Ended June 30, 2013 and 2012.*

A summary of our results from continuing operations is as follows:

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>
Operating expenses:		
Exploration costs	\$ 8,591	\$ 17,105
Other operating costs	1,150	340
General and administrative expenses	200,322	130,202
Total operating expenses	210,063	147,647
Operating loss	(210,063)	(147,647)
Total other income (expense) - net	(7,131)	(58,796)
Loss from continuing operations	\$ (217,194)	\$ (206,443)

During the three months ended June 30, 2013, our loss from continuing operations was \$(217,194) as compared to \$(206,443) during the same period in 2012. The \$10,751 increase in our loss was mainly attributable to an increase in general and administrative expenses resulting from the issuance of common stock purchase options granted to each of our three directors during the quarter ended June 30, 2013.

*Operating expenses:*

During the three months ended June 30, 2013, our total operating expenses increased \$62,416, or 42%, from \$147,647 to \$210,063 for the three months ended June 30, 2012 and 2013, respectively.

During the three months ended June 30, 2013, we incurred \$8,591 of exploration costs as compared to \$17,105 during the same period in 2012, a decrease of \$8,514. For the three months ended June 30, 2013 exploration costs consisted primarily of metallurgical analysis of bulk samples from the Langtry project and certain legal expenses associated with our assessments regarding the validity of

certain royalty agreements, as compared to the three months ended June 30, 2012, which were mainly applicable to the preparation of our NI 43-101 Technical Report.

Our other operating costs, consisting of environmental permitting expenses, were \$1,150 and \$340 for the three months ended June 30, 2013 and 2012, respectively.

Our general and administrative expenses increased \$70,120, or 54%, from \$130,202 to \$200,322 for the three months ended June 30, 2012 and 2013, respectively. On April 8, 2013, we granted 200,000 common stock purchase options with a grant date fair value of \$0.26 per share to each of our three directors, which were 100% vested on the grant date. These options expire on April 8, 2018, and have an exercise price of \$0.26 per share. The options granted on April 8, 2013 were determined to have a fair value of \$154,000, which was charged as share-based compensation to general and administrative expenses on the grant date. For the three months ended June 30, 2012, our share-based compensation totaled \$6,862 and represented the vesting of certain common stock purchase options granted to a director on July 14, 2011.

In addition, we realized a \$72,158 decrease in professional fees, which generally consist of accounting, audit, legal and investor relations fees, as well as a \$4,249 decrease in executive travel and other office expenses.

*Other income (expense):*

Our other expenses, net, were \$7,131 during the three months ended June 30, 2013, as compared to other expenses, net, of \$58,796 during the three months ended June 30, 2012. For the three months ended June 30, 2013 we incurred \$11,073 in interest expense associated with our related party convertible notes payable. Interest expense for the three months ended June 30, 2012 was \$1,002.

Our periodic evaluation and mark-to-market of our derivative warrant liability at June 30, 2013 resulted in a \$3,942 decrease in the liability as compared to a \$429 increase in the liability for the three months ended June 30, 2012.

Finally, for the three months ended June 30, 2012, we recorded a one-time \$57,366 loss on extinguishment of notes payable to related parties, which was completed in May 2012.

***Results of Continuing Operations for the Six Months Ended June 30, 2013 and 2012.***

A summary of our results from continuing operations is as follows:

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>
Operating expenses:		
Exploration costs	\$ 43,046	\$ 80,764
Other operating costs	1,490	340
General and administrative expenses	240,557	202,514
Total operating expenses	285,093	283,618
Operating loss	(285,093)	(283,618)
Total other income (expense) - net	(404)	(60,741)
Loss from continuing operations	\$ (285,497)	\$ (344,359)

During the six months ended June 30, 2013, our loss from continuing operations was \$(285,497) as compared to \$(344,359) during the same period in 2012. The \$58,862 decrease in our loss was mainly attributable to other income and expense items as discussed further below.

*Operating expenses:*

During the six months ended June 30, 2013, our total operating expenses increased \$1,475, or 1%, from \$283,618 to \$285,093 for the six months ended June 30, 2012 and 2013, respectively.

During the six months ended June 30, 2013, we incurred \$43,046 of exploration costs as compared to \$80,764 during the same period in 2012, a decrease of \$37,718. For the six months ended June 30, 2013 exploration costs consisted primarily of metallurgical analysis of bulk samples from the Langtry project and certain legal expenses associated with our assessments regarding the validity of certain royalty agreements, as compared to the six months ended June 30, 2012, which were mainly applicable to the preparation of our NI 43-101 Technical Report.

Our other operating costs, consisting of environmental permitting expenses, were \$1,490 and \$340 for the six months ended June 30, 2013 and 2012, respectively.

Our general and administrative expenses increased \$38,043, or 19%, from \$202,514 to \$240,557 for the six months ended June 30, 2012 and 2013, respectively. On April 8, 2013, we granted 200,000 common stock purchase options with a grant date fair value of \$0.26 per share to each of our three directors, which were 100% vested on the grant date. These options expire on April 8, 2018, and have an exercise price of \$0.26 per share. The options granted on April 8, 2013 were determined to have a fair value of \$154,000, which was charged as share-based compensation to general and administrative expenses on the grant date. For the six months ended June 30, 2012, our share-based compensation totaled \$13,725 and represented the vesting of certain common stock purchase options granted to a director on July 14, 2011.

In addition, we realized a \$93,270 decrease in professional fees, which generally consist of accounting, audit, legal and investor relations fees, as well as a \$8,085 decrease in executive travel and other office expenses.

*Other income (expense):*

Our other expenses, net, were \$404 during the six months ended June 30, 2013, as compared to other expenses, net, of \$60,741 during the six months ended June 30, 2012. For the six months ended June 30, 2013 we incurred \$19,213 in interest expense associated with our related party convertible notes payable. Interest expense for the six months ended June 30, 2012 was \$2,947.

Our periodic evaluation and mark-to-market of our derivative warrant liability at June 30, 2013 resulted in a \$18,808 decrease in the liability as compared to a \$429 increase in the liability for the six months ended June 30, 2012.

Finally, for the six months ended June 30, 2012, we recorded a one-time \$57,366 loss on extinguishment of notes payable to related parties, which was completed in May 2012.

## **Liquidity and Capital Resources:**

### *Liquidity*

During the six months ended June 30, 2013, we required capital principally for funding of our operating activities and required periodic mineral rights payments. To date, we have financed our capital requirements through the sale of unregistered equity securities and borrowings primarily from related parties. We expect to meet our future financing needs and working capital and capital expenditure requirements through additional borrowings and offerings of debt or equity securities, although there can be no assurance that our future financing efforts will be successful. The terms of future financings could be highly dilutive to existing shareholders.

On June 30, 2013, we had \$3,098 of cash and cash equivalents and negative working capital of \$(1,058,917). This compares to cash on hand of \$12,229 and negative working capital of \$(759,503) at December 31, 2012.

Effective July 18, 2012, we entered into a Credit Agreement with John D. Gibbs, a related party and significant shareholder, pursuant to which Mr. Gibbs has agreed to make available to us a revolving credit facility in the maximum principal amount of \$1.0 million. Credit Notes representing advances under the Credit Agreement accrue interest at the rate of 5% per annum, are due and payable on or before July 31, 2013, and are convertible at the option of the holder into common shares at a conversion price of \$0.50 per share. The credit facility also contains customary representations and warranties (including those relating to organization and authorization, compliance with laws, payment of taxes and other obligations, absence of defaults, material agreements and litigation) and customary events of default (including those relating to monetary defaults, covenant defaults, cross defaults and bankruptcy events).

As of June 30, 2013 total borrowings under the Credit Agreement were \$885,000. We do not expect the remaining credit of \$115,000 will provide sufficient working capital for the next twelve months. Also, a \$250,000 payment will be due to the lessor of our Langtry lease on January 31, 2014 to maintain the terms of our lease amendment executed in November 2012 with the lessor that among other things grants us an purchase option on the property and retire the 3% NSR granted to the lessor under our original lease agreement entered into in March of 2010. We have no other commitments or understandings for additional financing beyond the Credit Agreement.





***Cash Flows***

A summary of our cash provided by and used in operating, investing and financing activities is as follows:

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Net cash used in operating activities	\$ (133,131)	\$ (158,103)
Net cash used in investing activities	(205,000)	(207,169)
Net cash provided by financing activities	329,000	373,800
Net (decrease) increase in cash	(9,131)	8,528
Cash and cash equivalents, beginning of period	12,229	4,672
Cash and cash equivalents, end of period	\$ 3,098	\$ 13,200

***Net cash used in operating activities:***

Net cash used in operating activities was \$(133,131) and \$(158,103) during the six months ended June 30, 2013 and 2012, respectively.

Cash used in operating activities during the six months ended June 30, 2013 mainly related to our \$(285,497) net loss as adjusted for non-cash items and changes in operating assets and liabilities. The non-cash adjustments were comprised of a \$154,000 share-based compensation charge representing the fair value of common stock purchase options granted to our three directors on April 8, 2013, and a \$(18,808) mark-to-market gain relating to the change in fair value of our derivative warrants liability. Our changes in operating assets and liabilities were comprised of a \$34,668 decrease in prepaid expenses, and a net \$(17,494) decrease in accounts payable, accrued and other current liabilities applicable to operations.

Cash used in operating activities during the six months ended June 30, 2012 mainly related to our \$344,359 net loss as adjusted for non-cash items and changes in operating assets and liabilities. These non-cash adjustments were comprised of \$13,725 in share-based compensation expense, a \$57,366 loss on extinguishment of debt - related parties, \$35,793 in investor relations expense attributable to derivative warrants issued for services, and a \$429 mark-to-market loss in our change in fair value of derivative warrant liability. Our changes in operating assets and liabilities were comprised of a \$42,426 increase in current liabilities applicable to operations consisting of accounts payable, accrued liabilities and our derivative warrant liability and a \$36,517 decrease in prepaid expenses during the period.

*Net cash used in investing activities:*

Cash used in investing activities was \$(205,000) during the six months ended June 30, 2013 as compared to \$(207,169) during the six months ended June 30, 2012.

Our cash used in investing activities during the six months ended June 30, 2013 represents annual lease rental payments under our Langtry Lease of \$80,000, and \$125,000 representing payment on the lease amendment to buy down certain possible future royalty obligations.

Our cash used in investing activities during the six months ended June 30, 2012 was comprised of a \$135,684 expenditure for our Section 13 mineral property, a \$70,000 annual lease rental payment under our Langtry Lease and the payment for \$1,485 of other mineral rights acquisition costs.

*Net cash provided by financing activities:*

Cash provided by financing activities during the six months ended June 30, 2013 was \$329,000 compared to cash provided by financing activities of \$373,800 during the same period in 2012.

During the six months ended June 30, 2013 we borrowed \$330,000 from Mr. Gibbs under the Credit Agreement, and incurred net payments toward advances payable to related parties of \$1,000.

During the six months ended June 30, 2012 we borrowed \$310,000 from Mr. Gibbs, sold 240,000 common shares to Mr. Gibbs for \$60,000 cash and incurred a net increase in advances payable to related parties of \$3,800.

**Off Balance Sheet Arrangements:**

We do not have and never had any off-balance sheet arrangements.

**Recent Accounting Pronouncements**

Recently issued Financial Accounting Standards Board Accounting Standards Codification guidance has either been implemented or is not significant to us.

**Critical Accounting Policies**

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates, assumptions and judgments that affect the amounts reported in our financial statements. Note 2 - *Summary of Significant Accounting Policies* to our consolidated financial statements describes our significant accounting policies used in the preparation of our financial statements. The accounting positions described below are significantly affected by critical accounting estimates.

We believe that the significant estimates, assumptions and judgments used when accounting for items and matters such as capitalized mineral rights, asset and liability valuations, recoverability of assets, asset impairments, taxes, and other provisions were reasonable, based upon information available at the time they were made. Actual results could differ from these estimates, making it possible that a change in these estimates could occur in the near term.

### ***Mineral Rights***

We have determined that our mining rights meet the definition of mineral rights, as defined by accounting standards, and are tangible assets. As a result, our direct costs to acquire or lease mineral rights are initially capitalized as tangible assets. Mineral rights include costs associated with: leasing or acquiring patented and unpatented mining claims; leasing mining rights including lease signature bonuses, lease rental payments and advance minimum royalty payments; and options to purchase or lease mineral properties.

If we establish proven and probable reserves for a mineral property and establish that the mineral property can be economically developed, mineral rights will be amortized over the estimated useful

life of the property following the commencement of commercial production or expensed if it is determined that the mineral property has no future economic value or if the property is sold or abandoned. For mineral rights in which proven and probable reserves have not yet been established, we assess the carrying values for impairment at the end of each reporting period and whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The net carrying value of our mineral rights represents the fair value at the time the mineral rights were acquired less accumulated depletion and any impairment losses. Proven and probable reserves have not been established for mineral rights as of June 30, 2013. No impairment loss was recognized during either of the six months ended June 30, 2013 or 2012, and mineral rights are net of \$0 of impairment losses as of June 30, 2013.

### ***Impairment of Long-lived Assets***

We continually monitor events and changes in circumstances that could indicate that our carrying amounts of long-lived assets, including mineral rights, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through their undiscounted expected future cash flows. If the future undiscounted cash flows are less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

### ***Exploration Costs***

Mineral exploration costs are expensed as incurred. When it has been determined that it is economically feasible to extract minerals and the permitting process has been initiated, exploration costs incurred to further delineate and develop the property are considered pre-commercial production costs and will be capitalized and included as mine development costs in our consolidated balance sheets.

### ***Share-based Payments***

We measure and recognize compensation expense or professional services expense for all share-based payment awards made to employees, directors and non-employee consultants based on estimated fair values. We estimate the fair value of stock options on the date of grant using the Black-Scholes-Merton option pricing model, which includes assumptions for expected dividends, expected share price volatility, risk-free interest rate, and expected life of the

options. Our expected volatility assumption is based on our historical weekly closing price of our stock over a period equivalent to the expected life of the options.

We expense share-based compensation, adjusted for estimated forfeitures, using the straight-line method over the vesting term of the award for our employees and directors and over the expected service term for our non-employee consultants. We estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from our estimates. Our excess tax benefits, if any, cannot be credited to stockholders' equity until the deduction reduces cash taxes payable; accordingly, we realized no excess tax benefits during any of the periods presented in the accompanying consolidated financial statements.

### *Income Taxes*

We account for income taxes through the use of the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and for income tax carry-forwards. A valuation allowance is recorded to the extent that we cannot conclude that realization of deferred tax assets is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

We follow a two-step approach to recognizing and measuring tax benefits associated with uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if, based on the technical merits, it is more likely than not that the tax position will be sustained upon examination by a taxing authority, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement with a taxing authority. We recognize interest and penalties, if any, related to uncertain tax positions in our provision for income taxes in the consolidated statements of operations. To date, we have not recognized any tax benefits from uncertain tax positions.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures:**

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures. Our



management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

Our management, with the participation of our CEO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, our CEO concluded that our disclosure controls and procedures were not effective as of such date as a result of a material weakness in our internal control over financial reporting due to lack of segregation of duties and a limited corporate governance structure as discussed in Item 9A. of our Form 10-K for the fiscal year ended December 31, 2012.

While we strive to segregate duties as much as practicable, there is an insufficient volume of transactions at this point in time to justify additional full time staff. We believe that this is typical in many exploration stage companies. We may not be able to fully remediate the material weakness until we commence mining operations at which time we would expect to hire more staff. We will continue to monitor and assess the costs and benefits of additional staffing.

**Changes in Internal Control over Financial Reporting:**

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None.

### **ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2012.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

All sales of unregistered securities were reported on Form 8-K during the period.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

**EXHIBIT**

**NUMBER**

**DESCRIPTION**

10.1	Allonge and Modification Agreement (1)
31	Certification Pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema**
101.CAL	XBRL Taxonomy Extension Calculation**
101.DEF	XBRL Taxonomy Extension Definition **
101.LAB	XBRL Taxonomy Extension Labels**
101.PRE	XBRL Taxonomy Extension Presentation**

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(1) Incorporated by reference to the Company's Current Report on Form 8-K dated June 5, 2013 and filed with the Commission on June 6, 2013.

\* Filed herewith  
 \*\* Furnished, not filed.

