

ATHENA SILVER CORP
Form 10-Q
November 13, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

**[] 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**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 [X] 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 [X]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

On November 7, 2014, 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
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,975	\$ 16,934
Total current assets	2,975	16,934
Mineral rights and properties - unproven	1,788,817	1,689,297
Total assets	\$ 1,791,792	\$ 1,706,231
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 58,737	\$ 70,195
Accrued liabilities	54,167	71,250
Due to related parties	92,452	50,735
Derivative warrant liability	18,850	17,500
Convertible notes payable - related parties	1,211,000	990,000
Total current liabilities	1,435,206	1,199,680
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 issued and outstanding	3,600	3,600
Additional paid-in capital	6,580,048	6,580,048
Accumulated deficit	(6,227,062)	(6,077,097)
Total shareholders' equity	356,586	506,551
Total liabilities and shareholders' equity	\$ 1,791,792	\$ 1,706,231

See notes to unaudited consolidated interim financial statements.

ATHENA SILVER CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ending September 30,		Nine months ending September 30,	
	2014	2013	2014	2013
Operating expenses:				
Exploration costs	\$ 4,178	\$ -	\$ 4,641	\$ 43,046
Other operating costs	-	-	-	1,490
General and administrative expenses	27,948	38,043	102,258	278,600
Total operating expenses	32,126	38,043	106,899	323,136
Operating loss	(32,126)	(38,043)	(106,899)	(323,136)
Other income (expense):				
Interest expense	(12,682)	(11,480)	(41,716)	(30,693)
Change in fair value of warrant liability	13,620	9,382	(1,350)	28,190
Other income	-	-	-	1
Total other income (expense)	938	(2,098)	(43,066)	(2,502)
Net loss	\$ (31,188)	\$ (40,141)	\$ (149,965)	\$ (325,638)
Basic and diluted net loss per common share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Basic and diluted weighted-average common shares outstanding	36,002,320	36,002,320	36,002,320	35,811,844

See notes to unaudited consolidated interim financial statements.

ATHENA SILVER CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$ (149,965)	\$ (325,638)
Adjustments to reconcile net loss to net cash		
used in operating activities:		
Share-based compensation expense	-	154,000
Change in fair value of derivative		
warrant liability	1,350	(28,190)
Changes in operating assets and liabilities:		
Prepaid expenses	-	34,668
Accounts payable	(11,458)	(47,127)
Accrued liabilities and other		
liabilities	41,717	32,974
Net cash used in operating activities	(118,356)	(179,313)
Cash flows from investing activities:		
Acquisition of mineral rights	(116,603)	(205,000)
Net cash used in investing activities	(116,603)	(205,000)
Cash flows from financing activities:		
Net change in advances payable - related parties	-	(1,000)
Borrowings from convertible notes payable - related parties	221,000	375,000
Net cash provided by financing activities	221,000	374,000
Net increase (decrease) in cash	(13,959)	(10,313)
Cash at beginning of period	16,934	12,229
Cash at end of period	\$ 2,975	\$ 1,916
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Supplemental disclosure of non-cash investing and		
financing activities:	\$ (17,083)	\$ (22,084)

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Increase (decrease) in accrued liabilities applicable to mineral rights

Common stock issued for mineral rights	\$	-	\$	340,000
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See notes to unaudited consolidated interim financial statements.

ATHENA SILVER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

We were incorporated on December 23, 2003, in Delaware and our principal business is the acquisition and exploration of mineral resources. 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 nine month periods ended September 30, 2014 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, 2013.

During the quarter ended September 30, 2014, the Company elected to early adopt Accounting Standards Update No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements. The adoption of this ASU allowed the company to remove the inception to date information and all references to exploration stage.

Liquidity and Going Concern

Our 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 fiscal year. Asset realization values may be significantly different from carrying values as shown in 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 September 30, 2014, we had not yet achieved profitable operations and we have accumulated losses of \$6,227,062 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. On December 31, 2013 we amended our credit agreement with Mr. John Gibbs, a related party, to increase the borrowing limit under the line of credit to \$1,250,000, which provides the Company an additional \$39,000 available under the

credit line at September 30, 2014. We anticipate that additional funding will be in the form of additional loans from officers, directors or significant shareholders, or equity financing from the sale of our common stock. Currently, there are no arrangements in place for additional equity funding or new loans.

Note 2 Mineral Rights and Properties

Our mineral rights and mineral properties consist of:

	September 30, 2014	December 31, 2013
Mineral properties	\$ 156,707	\$ 135,684
Mineral rights Langtry Project	1,632,110	1,553,613
Mineral rights and properties	\$ 1,788,817	\$ 1,689,297

Mineral Properties

During the second quarter of 2014, we purchased of 160 acres of land, located in the eastern Calico Mining District, San Bernardino County, California. The parcel is the SE quarter of Section 25, Township 10 North, Range 1 East and is mostly surrounded by public lands. It was purchased for \$21,023 in a property tax auction conducted on behalf of the County. The eastern part of the Calico Mining District is best known for industrial minerals and is not known to have any precious metal deposits. It is not known at this time if there has ever been any mineral exploration or production on the acquired property.

In 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 or approximately 413 acres that comprise our Langtry Property. Effective November 28, 2012 and December 19, 2013, we executed Amendments No. 1 & 2, respectively, to the Langtry Lease modifying certain terms. The following summarizes the current significant provisions of the Lease as amended:

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.

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 Lease requires 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).

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.

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

Upon payment in full of both the Equity Consideration (which was completed in 2013), and Cash Consideration payments totaling \$2,000,000 (of which a total of \$250,000 was paid during 2012 and 2013), the lessor's 3% net smelter royalty on production will be eliminated entirely. Any payments already made, or made in the future, are to reduce the 3% net smelter production royalty to the lessor calculated on a pro-rata basis. The remaining optional Cash Consideration payments of \$250,000, \$500,000 and \$1,000,000 are due on January 15th of 2015, 2016 and 2017, respectively.

We shall have the option to purchase the Langtry patented claims during the period beginning January 15, 2015 and ending March 15, 2016 for \$10 million plus transaction costs upon 30 days written notice to the lessor provided that all payments due to the lessor are current as of the date of the exercise of the option to purchase.

If we are in breach of the Lease, 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.

On March 17, 2014 we paid \$90,000 of lease rental payments, of which \$71,250 had been previously accrued and capitalized as mineral rights prior to December 31, 2013. The balance of the payment of \$18,750 plus additional payments totaling \$26,603 and additional accruals of \$54,167, totaling \$99,520, was capitalized as mineral rights during the nine months ended September 30, 2014.

During the nine months ended September 30, 2013 we capitalized \$527,957 of lease rental and lease amendment payments related to amendment of the lease and associated buy-down of a royalty payable to the lessor. These amounts were an increase to mineral rights and properties during the nine months ended September 30, 2013.

All commitments and obligations under the Lease have been fulfilled to date. Future lease payments and/or exploration and development of this property will require new equity and/or debt capital.

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 September 30, 2014	Fair Value Measurement at September 30, 2014		
		Level 1	Level 2	Level 3
Derivative warrant liability	\$ 18,850	\$	\$	\$ 18,850

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:

	Nine Months Ended September
	30, 2014
Balance December 31, 2013	\$ 17,500
Total losses (realized/unrealized):	
Included in net loss	1,350
Balance September 30, 2014	\$ 18,850

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 September 30, 2014:

Fair value assumptions	derivative warrants:	Nine Months Ended September 30, 2014
Risk free interest rate		1.07%
Expected term (years)		2.4
Expected volatility		88%
Expected dividends		0%

Note 5 Convertible Notes Payable Related Party

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, was 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. On December 31, 2013 we amended the credit agreement to increase the borrowing limit under the line of credit to \$1,250,000 and extend the maturity date to December 31, 2014. All other provisions under the agreement remained unchanged. The Company evaluated the convertible line of credit for derivative and beneficial feature conversion and concluded that these do not apply to the convertible line of credit.

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).

Total principal amounts owed under the credit facility notes payable were \$1,211,000 and \$990,000 at September 30, 2014 and December 31, 2013, respectively.

Borrowings under our convertible note payable to Mr. Gibbs for the nine months ended September 30, 2014 totaled \$221,000, which was used to pay certain mining lease obligations and property as discussed in Note 2 Mineral Rights and Properties and operating expenses. No principal or interest payments were made to Mr. Gibbs during the nine months ended September 30, 2014.

Total accrued interest on the notes payable to Mr. Gibbs were \$92,452 and \$50,735 at September 30, 2014 and December 31, 2013, respectively, and are included in Due to related parties on the accompanying balance sheets.

Interest Expense Related Parties

Total related party interest expense was \$41,716 and \$30,274 for the nine months ended September 30, 2014 and 2013, respectively. Total related party interest expense was \$12,682 and \$11,439 for the three months ended September 30, 2014 and 2013, respectively.

Note 6 - Commitments and Contingencies

We are subject to various commitments and contingencies under the Langtry Lease as discussed in Note 2 Mining Rights and Properties. All commitments and obligations under the Lease have been fulfilled to date.

Note 7 - 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 September 30, 2014, we had 350,000 common shares available for grant under the plan.

Stock Options

A summary of our stock option activity for the year ended December 31, 2013 and nine months ended September 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2012	150,000	\$0.43
Options granted	600,000	\$0.26
Outstanding at December 31, 2013	750,000	\$0.29
Options granted or expired	-	
Outstanding at September 30, 2014	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 September 30, 2014, these options have a weighted average remaining contractual life of 3.5 years. The options were determined to have a fair value of \$154,000, which was charged to share based compensation expense on the grant date. The weighted average contractual life of all outstanding options was 3.2 years at September 30, 2014.

No share based compensation expense was recorded for either of the three or nine months ended September 30, 2014.

Note 8 Related Party Transactions

Conflicts of Interests

Magellan Gold Corporation (Magellan) 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 and creditor (see Note 5 Convertible Notes Payable Related Party), 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 (Silver Saddle) 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.

During early 2014, we pursued an opportunity to lease certain BLM lode claims in Esmeralda County, Nevada from an unrelated third party. As part of this effort, we incurred costs to evaluate the potential opportunity. Based on the evaluation, the Board of Directors decided to not pursue this lease opportunity. Subsequently, Silver Saddle Resources, LLC decided to pursue this opportunity and agreed to pay us for certain costs we had incurred during the evaluation, and on March 31, 2014 Silver Saddle paid the Company \$586 for those expenditures. The payment was recorded as a reduction of the expenditures incurred.

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

The Company is subject to 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. For each of the nine months ended September 30, 2014 and 2013, a total of \$22,500 was recorded as management fees and are included in general and administrative expenses in the accompanying Consolidated Statements of Operations. As of September 30, 2014 all management fees due Mr. Power had been paid.

Due to Related Parties

At September 30, 2014 and December 31, 2013 due to related parties represented accrued interest payable to Mr. Gibbs in the amounts of \$92,452 and \$50,735, respectively.

Advances Payable - Related Parties

Mr. Power has on occasion advanced the Company funds generally utilized for day-to-day operating requirements. These advances are non-interest bearing and are generally repaid as cash becomes available.

During the nine months ended September 30, 2014, Mr. Power advanced the Company a total of \$334, all of which was repaid during the period. There were no outstanding advances at either September 30, 2014 or December 31, 2013.

During the nine months ended September 30, 2013, Mr. Power advanced the Company an additional \$5,750 and was repaid the outstanding balance of \$6,750.

The Company also utilizes credit cards owned by Mr. Power to pay various obligations when an online payment is required, the availability of cash is limited, or the timing of the payments is considered critical. At September 30, 2014 a total of \$4,044 of Company charges was outstanding on his credit cards and is included in the accounts payable balance at September 30, 2014. No such amounts were outstanding at December 31, 2013.

Note 9 - Subsequent Events

The Company has evaluated subsequent events through the date that the financial statements were issued.

Subsequent to September 30, 2014 the Company borrowed an additional \$10,000 under the credit agreement from Mr. Gibbs.

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, 2013, filed with the Commission on March 28, 2014, 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

We were incorporated on December 23, 2003, in Delaware and our principal business is the acquisition and exploration of mineral resources.

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 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, performed metallurgical studies and hired an independent firm to estimate our resources. In May 2012, our independent consultant issued a NI 43-101 report following 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 and mineral reserve estimates, as well as other relevant data and information.

We continue to evaluate strategies to enhance the value of our mining assets subject to restrictions based on our limited capital available under our line of credit. 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 Quarterly Report on Form 10-Q.

Results of Operations for the Three Months Ended September 30, 2014 and 2013

A summary of our results from operations is as follows:

	Three Months Ended	
	2014	September 30, 2013
Operating expenses:		
Exploration costs	\$ 4,178	\$ -
General and administrative expenses	27,948	38,043
Total operating expenses	32,126	38,043
Operating loss	(32,126)	(38,043)
Total other income (expense) - net	938	(2,098)
Net loss	\$ (31,188)	\$ (40,141)

During the three months ended September 30, 2014, our net loss was \$31,188 as compared to a loss of \$40,141 during the same period in 2013. The \$8,953 decrease in our loss was mainly attributable to a \$13,721 decrease in professional

accounting and legal fees.

Operating expenses:

During the three months ended September 30, 2014, our total operating expenses decreased \$5,917, or 16%, from \$38,043 to \$32,126 for the three months ended September 30, 2013 and 2014, respectively.

During the three months ended September 30, 2014, we incurred \$4,178 of exploration costs as compared to \$-0- during the same period in 2013. For the three months ended September 30,

2014 exploration costs consisted primarily of storage and legal expenses associated with the Langtry project.

Our general and administrative expenses decreased \$10,095, or 27%, from \$38,043 to \$27,948 for the three months ended September 30, 2013 and 2014, respectively, and is primarily attributable to a \$13,271 decrease in professional fees including certain legal and accounting expenses as we continue our efforts to reduce such costs as the primary driver of our current operating cost structure.

Other income (expense):

Our total other income was \$938 during the three months ended September 30, 2014, as compared to total other expenses of \$2,098 during the three months ended September 30, 2013. For the three months ended September 30, 2014 we incurred \$12,682 in interest expense associated with our related party convertible notes payable. Interest expense for the three months ended September 30, 2013 was \$11,480, which was also associated with our related party convertible notes payable.

Our periodic evaluation and mark-to-market of our derivative warrant liability at September 30, 2014 resulted in a \$13,620 decrease in the liability as compared to a \$9,382 decrease in the liability for the three months ended September 30, 2013.

Results of Operations for the Nine Months Ended September 30, 2014 and 2013

A summary of our results from operations is as follows:

	Nine Months Ended	
	2014	September 30, 2013
Operating expenses:		
Exploration costs	\$ 4,641	\$ 43,046
Other operating costs	-	1,490
General and administrative expenses	102,258	278,600
Total operating expenses	106,899	323,136
Operating loss	(106,899)	(323,136)

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Total other income (expense) - net	(43,066)	(2,502)
Net loss	\$ (149,965)	\$ (325,638)

During the nine months ended September 30, 2014, our loss from operations was \$106,899 as compared to an operating loss of \$323,136 during the same period in 2013. The \$216,237 decrease in our loss was mainly attributable to decreases in exploration costs, and a decrease in general and administrative expenses in 2013 primarily resulting from the issuance of common stock purchase options granted to each of our three directors in April 2013, as well as decreases in certain professional fees including certain legal and accounting expenses.

Operating expenses:

During the nine months ended September 30, 2014, our total operating expenses decreased \$216,237, or 67%, from \$323,136 to \$106,899 for the nine months ended September 30, 2013 and 2014, respectively.

During the nine months ended September 30, 2014, we incurred \$4,641 of exploration costs as compared to \$43,046 during the same period in 2013, a decrease of \$38,405. For the nine months ended September 30, 2014, exploration costs consisted of storage and legal expenses associated with the Langtry project. For the nine 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. Our other operating costs, consisting of environmental permitting expenses, were \$0 and \$1,490 for the nine months ended September 30, 2014 and 2013, respectively.

Our general and administrative expenses decreased \$176,342, or 63%, from \$278,600 to \$102,258 for the nine months ended September 30, 2013 and 2014, respectively, and is primarily attributable to the issuance of common stock purchase options granted to each of our three directors in April 2013. 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. In addition, our professional and consulting expenses decreased by \$27,161 generally representing decreases in certain legal fees, and accounting and auditing fees as we continue our efforts to reduce such costs as the primary driver of our current operating cost structure.

Other income (expense):

Our total other expenses were \$43,066 during the nine months ended September 30, 2014, as compared to total other expenses of \$2,502 during the nine months ended September 30, 2013. For the nine months ended September 30, 2014 we incurred \$41,716 in interest expense associated with our related party convertible notes payable. Interest expense for the nine months ended September 30, 2013 was \$30,693, which was also associated with our related party convertible notes payable.

Our periodic evaluation and mark-to-market of our derivative warrant liability at September 30, 2014 resulted in a \$1,350 increase in the liability as compared to a \$28,190 decrease in the liability for the nine months ended September

30, 2013.

Liquidity and Capital Resources:

Liquidity

During the nine months ended September 30, 2014, 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 September 30, 2014, we had \$2,975 of cash and cash equivalents and negative working capital of \$1,432,231. This compares to cash on hand of \$16,934 and negative working capital of \$1,182,746 at December 31, 2013.

We have a Credit Agreement, as amended, with a significant shareholder, which provides us with an unsecured credit facility in the maximum borrowing amount of \$1,250,000. The aggregate principal amount borrowed, together with interest at the rate of 5% per annum, is due in full on December 31, 2014, and is convertible, at the option of the lender, 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 September 30, 2014 total borrowings under the Credit Agreement were \$1,211,000. We do not expect the remaining available credit of \$39,000 will provide sufficient working capital for the next twelve months.

On December 17, 2013 the Langtry Lease was amended to change certain provisions of the original agreement and subsequent amendment, including modification the due dates for certain Cash Consideration payments to the lessor. This modification resulted in the deferral of a \$250,000 Cash Consideration payment originally due January 15, 2014, to January 15, 2015. The Cash Consideration payments are optional under the lease, as they would provide for reductions of a net smelter royalty in favor of the lessor.

Cash Flows

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

	Nine Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$ (118,356)	\$ (179,313)

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Net cash used in investing activities	(116,603)	(205,000)
Net cash provided by financing activities	221,000	374,000
Net decrease in cash	(13,959)	(10,313)
Cash and cash equivalents, beginning of period	16,934	12,229
Cash and cash equivalents, end of period	\$ 2,975	\$ 1,916

Net cash used in operating activities:

Net cash used in operating activities was \$118,356 and \$179,313 during the nine months ended September 30, 2014 and 2013, respectively.

Cash used in operating activities during the nine months ended September 30, 2014 mainly related to our \$(149,965) net loss as adjusted for the non-cash decrease in the fair value of our derivative warrant liability of \$1,350 and changes in operating assets and liabilities. Our changes in operating assets and liabilities were comprised of a net \$30,259 increase in current liabilities applicable to operations consisting of accounts payable and accrued liabilities generally representing accrued interest on our related party convertible notes payable.

Cash used in operating activities during the nine months ended September 30, 2013 mainly related to our \$(325,638) 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 \$(28,190) 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 \$14,153 decrease in current liabilities applicable to operations consisting of accounts payable and accrued liabilities.

Net cash used in investing activities:

Cash used in investing activities was \$(116,603) during the nine months ended September 30, 2014 as compared to \$(205,000) during the nine months ended September 30, 2013.

Cash used in investing activities during the nine months ended September 30, 2014 represents annual lease rental payments under our Langtry Lease of \$90,000, as well as \$21,023 representing cash paid for the acquisition of property located in the Calico Mining District, San Bernardino County, California in a property tax auction conducted on behalf of the County during the second quarter of 2014. In addition, during the third quarter we paid \$5,580 to renew our 36 unpatented mining claims in San Bernardino County with the Bureau of Land Management.

Cash used in investing activities during the nine 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.

Net cash provided by financing activities:

Cash provided by financing activities during the nine months ended September 30, 2014 was \$221,000 compared to cash provided by financing activities of \$374,000 during the same period in 2013.

During the nine months ended September 30, 2014 we borrowed \$221,000 from Mr. Gibbs under the Credit Agreement.

During the nine months ended September 30, 2013 we borrowed \$375,000 from Mr. Gibbs under the Credit Agreement, and incurred net payments toward advances payable to related parties of \$1,000.

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. 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 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 September 30, 2014. No impairment

loss was recognized during either the nine months ended September 30, 2014 and 2013, and mineral rights are net of \$0 of impairment losses as of September 30, 2014.

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, 2013.

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, 2013.

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

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**

*

Filed herewith

**

Furnished, not filed.

SIGNATURE

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

ATHENA SILVER CORPORATION

Dated: _____, 2014

By:

John C. Power
Chief Executive Officer, President,

Chief Financial Officer, Secretary & Director

(Principal Executive Officer)

(Principal Accounting Officer)