MAGELLAN GOLD Corp
Form 10-Q
August 18, 2017

0001515317 --12-31 mgc Yes No No false 2017 Q2 0001515317 2017-01-01 2017-06-30 0001515317 2017-06-30 0001515317 2016-06-30 0001515317 2017-08-15 0001515317 2017-08-15 2017-08-15 0001515317 2016-12-31 0001515317 2017-04-01 2017-06-30 0001515317 2016-04-01 2016-06-30 0001515317 2016-01-01 2016-06-30 0001515317 2015-12-31 0001515317 us-gaap:FairValueInputsLevel1Member 2017-06-30 0001515317 us-gaap:FairValueInputsLevel2Member 2017-06-30 0001515317 us-gaap:FairValueInputsLevel3Member 2017-06-30 0001515317 us-gaap:FairValueInputsLevel1Member 2016-12-31 0001515317 us-gaap:FairValueInputsLevel2Member 2016-12-31 0001515317 us-gaap:FairValueInputsLevel3Member 2016-12-31 0001515317 fil:UnsecuredLoanFromJohnPowerMember 2017-01-01 2017-06-30 0001515317 fil:UnsecuredLoanFromJohnPowerMember 2017-06-30 0001515317 fil:UnsecuredLoanFromJohnPowerMember 2016-12-31 0001515317 fil:UnsecuredLoan2FromJohnPowerMember 2017-01-01 2017-06-30 0001515317 fil:UnsecuredLoan2FromJohnPowerMember 2017-06-30 0001515317 fil:UnsecuredLoan2FromJohnPowerMember 2016-12-31 0001515317 fil:UnsecuredLoan3FromJohnPowerMember 2017-01-01 2017-06-30 0001515317 fil:UnsecuredLoan3FromJohnPowerMember 2017-06-30 0001515317 fil:ThreeShortTermNotesMember 2017-01-01 2017-06-30 0001515317 fil:ThreeShortTermNotesMember 2017-06-30 0001515317 fil:AdditionalSecuredLoanForAdvancesMember 2017-01-01 2017-06-30 0001515317 fil:AdditionalSecuredLoanForAdvancesMember 2017-06-30 0001515317 fil:ConvertiblePromissoryNoteMember 2017-01-01 2017-06-30 0001515317 fil:ConvertiblePromissoryNoteMember 2017-06-30 0001515317 fil:ConvertiblePromissoryNoteMember 2017-04-14 2017-04-14 0001515317 fil:ConvertiblePromissoryNoteMember 2017-06-30 2017-06-30 0001515317 fil:ConvertiblePromissoryNoteMember 2016-12-31 2016-12-31 0001515317 2016-06-01 2016-06-30 0001515317 2016-11-01 2016-11-30 0001515317 2016-11-30 0001515317 fil:MiningClipsLlcMember 2017-01-01 2017-06-30 0001515317 fil:MrPowerMember 2017-01-01 2017-06-30 0001515317 fil:MrPowerMember 2016-01-01 2016-06-30 0001515317 fil:MrPowerMember 2017-06-30 0001515317 fil:MrPowerMember 2016-12-31 0001515317 fil:MrGibbsMember 2017-06-30 0001515317 fil:MrGibbsMember 2016-12-31 0001515317 fil:MrPowerMember 2016-01-01 2016-12-31 0001515317 fil:Event1Member 2017-01-01 2017-06-30 0001515317 fil:Event2Member 2017-01-01 2017-06-30 0001515317 fil:Event3Member 2017-01-01 2017-06-30 xbrli:pure iso4217:USD xbrli:shares iso4217:USD xbrli:shares

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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 June 30, 2017

[   ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission file number: 333-174287

MAGELLAN GOLD CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**273566922**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
2010A Harbison Drive #312, Vacaville, CA	**95687**
(Address of principal executive offices)	(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 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 [ ] (Do not check if a smaller reporting company)	Smaller Reporting Company [X]

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company[X]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

On August 15, 2017, there were 74,380,548 shares of the registrant's common stock, $0.001 par value, issued and outstanding.

PART I. FINANCIAL INFORMATION

MAGELLAN GOLD CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 7,487	$ 485
Prepaid expenses	37,500	25,729
Option to acquire SDA mill	150,000	-
Total current assets	194,987	26,214
Mineral rights, net of impairment	323,200	323,200
Prepaid expenses	5,417	29,792
Investment in Rio Silver equity securities at cost	118,050	59,753
Total assets	$ 641,654	$ 438,959
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 114,102	$ 50,868
Accrued liabilities	153,683	75,592
Line of credit - related party	932,500	932,500
Notes payable - related parties	340,000	65,000
Accrued interest - related parties	191,696	161,639
Convertible note payable	3,000	33,020
Accrued interest	38	1,316
Advances payable, related party	500	-
Derivative liability	333,300	119,500
Total current liabilities	2,068,819	1,439,435
Shareholders' deficit:		
Preferred shares, $0.001 par value, 25,000,000 shares authorized, no shares issued and outstanding	-	-
	70,881	64,631

Common shares - $0.001 par value; 100,000,000 shares authorized, 70,880,548 and 64,630,548 shares issued and outstanding		
Additional paid-in capital	1,440,648	856,822
Accumulated other comprehensive loss	(520)	-
Accumulated deficit	(2,938,174)	(1,921,929)
Shareholders' deficit	(1,427,165)	(1,000,476)
Total liabilities and shareholders' deficit	$ 641,654	$ 438,959

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See accompanying notes to the unaudited consolidated financial statements

MAGELLAN GOLD CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating expenses:				
Exploration costs	$ 33,905	$ 17,891	$ 42,861	$ 19,164
General and administrative expenses	131,399	73,681	286,515	140,676
Total operating expenses	165,304	91,572	329,376	159,840
Operating loss	(165,304)	(91,572)	(329,376)	(159,840)
Other income (expense):				
Interest expense	(15,800)	(15,283)	(30,993)	(30,703)
Loss on change in derivative liability	(713,306)	(163,724)	(655,876)	(146,534)
Net loss	(894,410)	(270,579)	(1,016,245)	(337,077)
Net loss attributable to noncontrolling interest	-	(3,949)	-	(7,347)
Net loss attributable	(894,410)	(266,630)	(1,016,245)	(329,730)

to common shareholders				
Other comprehensive income (loss)				
Foreign currency translation	(390)	-	(520)	-
Net comprehensive loss	$ (894,800)	$ (266,630)	$ (1,016,765)	$ (329,730)
Basic and diluted net loss per common share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Basic and diluted weighted-average common shares outstanding	70,111,317	51,071,014	67,889,112	49,970,053

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See accompanying notes to the unaudited consolidated financial statements

MAGELLAN GOLD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six months ended June 30	
	2017	**2016**
Operating activities:		
Net loss	$ (1,016,245)	$ (337,077)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of deferred compensation	-	20,833
Amortization of service contracts	32,804	-
Loss on change in derivative liability	655,876	146,534
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(20,200)	(3,191)
Accounts payable and accrued expenses	132,475	8,129
Accrued interest	30,609	28,203
Net cash used in operating activities	(184,681)	(136,569)
Investing activities:		
Purchase of Rio Silver equity securities	(58,297)	-
Payment of option to acquire SDA mill	(150,000)	-
Payment of deposit on investment in mineral properties	-	(12,000)
Net cash used in investing activities	(208,297)	(12,000)
Financing activities:		
Advances on line of credit - related party	-	45,000
Proceeds from advances from related parties	20,550	12,650
Payments on advances from related parties	(20,050)	(12,650)
Proceeds from notes payable - related parties	275,000	-
Proceeds from sale of common stock and warrants	125,000	194,325
Net cash provided by financing activities	400,500	239,325
Effect of foreign currency exchange	(520)	-
Net increase in cash	7,002	90,756
Cash at beginning of period	485	867
Cash at end of period	$ 7,487	$ 91,623
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 382	$ 2,500
Cash paid for income taxes	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of notes payable to common stock	$ 23,000	$ 23,400
Reclassifications of derivative liability to APIC	$ 442,076	$ 20,044
	$ 8,850	$ -

Reclassifications of convertible note payable and accrued interest to accounts payable

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See accompanying notes to the unaudited consolidated financial statements

MAGELLAN GOLD CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Organization, Basis of Presentation, and Continuance of Operations

Organization and Nature of Operations

Magellan Gold Corporation ("we" "our", "us", the "Company" or "Magellan") was incorporated on September 28, 2010, under the laws of the State of Nevada. Our principal business is the acquisition and exploration of mineral resources. We have not presently determined whether the properties to which we have mining rights contain mineral reserves that are economically recoverable.

On September 30, 2014, we formed and organized a new wholly-owned subsidiary, Gulf+Western Industries, Inc., a Nevada corporation ("Gulf+Western" or "G+W"), to own and operate our Silver District mining interests. On October 1, 2014 we completed the transfer of those assets from Magellan to G+W. Effective December 31, 2014 Magellan pledged all its ownership interest in G+W to Mr. John D. Gibbs, a significant shareholder in the Company, as security for outstanding amounts under a line of credit agreement between Magellan and Mr. Gibbs.

On June 1, 2015, we transferred 15% of our ownership interest in G+W to Dr. W. Pierce Carson (Dr. Carson), in exchange for one year of service as President, Chief Executive Officer and Director of G+W. As a result of the transaction, Magellan's ownership interest in G+W was reduced to 85%. The transaction was valued at $50,000 representing compensation for the one-year period from June 2015 through May 2016. On June 1, 2016 Magellan entered into a one-year employment agreement with Dr. Carson in which he assumes the positions of President and Chief Executive Officer of Magellan. As a result, Mr. John Power resigned his positions as President and Chief Executive Officer concurrent with the execution of Dr. Carson's employment agreement. Mr. Power has retained the positions of Chief Financial Officer and Director of Magellan. Dr. Carson was appointed a Director of Magellan effective June 30, 2016.

In July 2016, the Company completed a share exchange with Dr. Carson in which Dr. Carson surrendered his 15% interest in G+W in exchange for 8,623,957 shares of Magellan Gold Corporation. As a result of this transaction, G+W became a wholly owned subsidiary of Magellan Gold Corporation.

On October 24, 2016, the Company entered into a Mining Option Agreement ("Option Agreement") between and among Rio Silver Inc., a Canadian company ("Rio Silver"), Minera Rio Plata S.A.C. ("Minera"), a Peruvian company and subsidiary of Rio Silver, and Magellan Gold Peru S.A.C. ("Magellan Peru"), a Peruvian company and wholly owned subsidiary of the Company pursuant to which Rio Silver through Minera granted to the Company a sole and exclusive option to acquire an undivided 50% interest in and to property located in central Peru. Further information regarding the Option Agreement is included below in Note 3– Mining Option Agreement.

On March 3, 2017 the Company entered into a Memorandum of Understanding ("MOU") with Rose Petroleum plc, a multi-asset natural resource business, to purchase an operating floatation plant that also includes a precious metals leach circuit and associated assets, licenses and agreements (together, the “SDA Mill”) located in the State of Nayarit, Mexico, for a total consideration at closing of US$1.5 million, payable in $1,000,000 in cash and $500,000 in restricted common stock of Magellan. The mill has operated for ten years and has historically produced ore for its current owner or third party toll miners . Under the terms of the MOU, in consideration of a non-refundable $50,000 option payment, the Company has been granted an option to purchase the SDA Mill until June 3, 2017. The option period has been extended for an additional 60 days with another $100,000 payment made during the quarter. The extension payment will be credited against the purchase price if the transaction closes. There is no assurance that we will satisfactorily complete our due diligence and/or raise the necessary capital to consummate this transaction.

Our primary focus is to complete the acquisition of the SDA Mill in Mexico and thereby transform Magellan into a production company, to continue to advance our Arizona and Peru silver projects towards resource definition and eventual development, and possibly to acquire additional mineral rights and conduct additional exploration, development and permitting activities. Our mineral lease payments, permitting applications and exploration and development efforts will require additional capital. We rely upon the sale of our securities as well as advances and loans from executive management and significant shareholders to fund our operations as we have not generated any revenue.

Basis of Presentation

We prepare our financial statements in accordance with accounting principles generally accepted in the United States ("GAAP"). The accompanying unaudited interim 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, 2017 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 financial statements should be read in conjunction with the audited financial statements and the footnotes thereto contained in our annual report on Form 10-K for the year ended December 31, 2016.

Our consolidated financial statements include our accounts and the accounts of our subsidiaries, Gulf + Western Industries, Inc., and Magellan Gold Peru S.A.C. All intercompany transactions and balances have been eliminated.

Foreign Currency Translations

The Company maintains its accounting records in US Dollars. Our operating subsidiary, Magellan Gold Peru S.A.C. is located in Peru and maintains its accounting records in the Peruvian Sol, which is its functional currency. The subsidiary's transactions are recorded in the respective functional currencies of the Company and its subsidiaries, and are reported to the Company in Peruvian Soles. For reporting, the Company translates the subsidiary's transactions and accounts to US Dollars at exchange rates approximating those ruling at the transaction dates. Exchange gains and losses are recorded in the statements of income and comprehensive income. Assets and liabilities of the Company and its subsidiaries are translated into the U.S. dollars at exchange rates at the balance sheet date, equity accounts are translated at historical exchange rate and revenues and expenses are translated by using the average exchange rates. Translation adjustments are reported as a separate component of other comprehensive income in the consolidated statements of operations and comprehensive loss.

Liquidity and Going Concern

Our unaudited 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 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, 2017, we had not yet generated any revenues or achieved profitable operations and we have accumulated losses of $2,938,174. 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, 2015 we amended our credit agreement with Mr. John Gibbs, a related party, to increase the borrowing limit to $1,000,000, which provides the Company an additional $67,500 available under the credit line at June 30, 2017. And effective December 31, 2016 we amended the agreement to extend the maturity date to December 31, 2018. As part of a 2014 amendment, we pledged our ownership interest in our subsidiary, G+W, which owns all our ownership interests in the Silver District properties, as security for all amounts outstanding under the credit agreement.

During the six months ended June 30, 2017 we sold 1,250,000 units consisting of common stock and warrants and realized net proceeds of $125,000. The proceeds were generally used to fund certain investing activities and for general working capital.

During the quarter ended June 30, 2017 we received a total of $275,000 from related parties in the form of short-term loans. The proceeds were also generally used to fund payments and expenses associated with our planned acquisition of the SDA mill and for general working capital.

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.

Note 2 – Mineral Rights and Properties

At both of June 30, 2017 and December 31, 2016, our mineral rights and properties were $323,200 associated with our Silver District claims. We updated our impairment analysis as of June 30, 2017, and concluded that the carrying value is not impaired.

Silver District

In August 2012, we entered into an option agreement with Columbus Exploration f/k/a Columbus Silver Corporation, which granted us the right to acquire all of Columbus' interest in its Silver District properties located in La Paz County, Arizona. We paid Columbus an initial $63,200 on signing of the option and a further $50,000 in December 2012. We paid other patented and unpatented mining claim purchase and lease obligations in 2013 and 2014 to maintain the project claims and leases in good standing. On September 30, 2014, we paid an additional $100,000 to Columbus Exploration to acquire all of Columbus' interest in its Silver District properties located in La Paz County, Arizona. The properties acquired from Columbus were assigned into our subsidiary Gulf+Western Industries, Inc. and our total acquisition cost capitalized was $323,200.

The Silver District property consists of 110 unpatented lode and mill site mining claims, six patented lode claims, and an Arizona State Exploration Permit, all of which are held directly or under lease agreements, totaling over 2,000 acres. Certain of the claims are subject to third party net smelter royalties and/or net profits of varying percentages.

In August 2016, we renewed the BLM lode and mill site claims in La Paz County, Arizona with the Bureau of Land Management and these claims will remain in good standing through August 31, 2017. Before August 31, 2017, the Company will renew the lode and mill site claims with the BLM for another year. Additionally, in both August 2016 and 2015, we made advance minimum royalty payments of $10,000 to a third party landowner on the Red Cloud lease, which includes the Red Cloud Patented claim and two BLM lode claims. We will continue to make such payments in 2017. We also expanded the Arizona State

Exploration Permit to approximately 334.85 acres on the Arizona State section that comprises part of our Silver District land package and are current on our obligations under this permit.

On July 9, 2015, G+W entered into two Lease and Purchase Agreements (“Agreements”) with an individual that grant the Company certain exploration and mining rights for two patented lode claims located in the Silver District, La Paz County, Arizona. The Agreements provide for scheduled variable annual advance minimum royalty payments to the lessor. In addition, the Agreements have an initial term of 20 years, and provide for the purchase of the properties for $125,000 each during the term of the lease, net of any advance royalty payments made up to the date of the purchase. The Company paid the initial advance royalty payments totaling $3,000 and advance royalty payments of $1,000 in July 2016 to maintain these Agreements. In 2017, we will pay advance royalty payments of $1,000 on these Agreements. Due to an uncertainty associated with the clarification of the legal title for these two patented lode claims, these payments have not been capitalized as mining rights, and therefore are included in exploration costs during the period in which the obligation was due.

Note 3 – Mining Option Agreement

On June 30, 2016 the Company signed a non-binding Letter of Intent (“LOI”) with Rio Silver Inc., and on October 24, 2016 the Company executed a definitive Mining Option Agreement (“Option Agreement), pursuant to which Magellan is granted the option to earn an undivided 50% interest in the Niñobamba Silver-Gold Property (“Property”), located 330 kilometers southeast of Lima in the Department of Ayacucho, Peru.

As a condition of the LOI, the Company had paid a refundable $12,000 deposit. This payment was recorded as a deposit and was subsequently used to maintain certain mining concessions on the property.

In addition to the deposit, the Company was obliged to subscribe to two private placement unit financings in Rio Silver, each for aggregate proceeds of Cdn$75,000. The Company completed the first unit private placement on August 23, 2016. The first placement included 1,500,000 units priced at Cdn$0.05, which included one share of Rio Silver common stock and one warrant to purchase one share of Rio Silver common stock for Cdn$0.05 which expire on February 23, 2018. The cost of the units in the first private placement totaled USD $59,753. The second placement included 1,250,000 units priced at Cdn$0.06, which was completed on January 19, 2017, and included one share of Rio Silver common stock and one warrant to purchase one share of Rio Silver common stock for Cdn$0.06 which expire on July 19, 2018. The cost of the units in the second private placement totaled USD $58,297. Each of these transactions were recorded as an investment in Rio Silver equity securities and included on the accompanying consolidated balance sheets at June 30, 2017 and December 31, 2016.

Under the terms of the Agreement, the Company has the right to earn an undivided 50% interest in the Niñobamba Silver/Gold Project in central Peru. To earn its 50% interest, the Company must spend $2.0 million in exploration over three years. The Niñobamba project is comprised of five concessions that total 36.5 square kilometers (9,026 acres). The concessions include the original Rio Silver concession, three concessions recently acquired from a Peruvian company owned jointly by Newmont Mining Corporation and Southern Peru Copper Corporation, and one concession for which application was made, and which is expected to be granted in 2017.

Note 4 – Option to Acquire SDA Mill

On March 3, 2017 the Company entered into a Memorandum of Understanding (“MOU”) with Rose Petroleum plc, a multi-asset natural resource business, to purchase an operating floatation plant that also includes a precious metals leach circuit and associated assets, licenses and agreements (together, the “SDA Mill”) located in the State of Nayarit, Mexico, for a total consideration at closing of US$1.5 million, payable in $1,000,000 in cash and $500,000 in restricted common stock of Magellan. Under the terms of the MOU, in consideration of a non-refundable $50,000 option payment, the Company was granted an option until June 3, 2017 to purchase the SDA Mill. The option period was extended for an additional 60 days with another $100,000 payment made during the quarter ended June 30, 2017. The extension payment will be credited against the purchase price if the transaction closes. On August 14, 2017, as required by Amendment No. 1, the Company provided the seller executed bridge loan commitments aggregating $900,000 available to fund the purchase transaction. The Company's provision of the commitment letters resulted in the extension of the purchase option until either the transaction is consummated or abandoned by the parties. There is no assurance that we will satisfactorily complete our due diligence and/or raise the necessary capital to consummate this transaction.

Note 5 - 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:

Fair	Fair Value

	Value at June 30, 2017	Measurement at June 30, 2017		
		Level 1	Level 2	Level 3
Derivative conversion option liability	$ 333,300	$ -	$ -	$ 333,300

	Fair Value at December 31, 2016	Fair Value Measurement at December 31, 2016		
		Level 1	Level 2	Level 3
Derivative conversion option liability	$ 119,500	$ -	$ -	$ 119,500

A summary of the activity of the derivative liability is shown below:

Balance December 31, 2016	$ 119,500
Total losses (unrealized, realized) included in net loss	655,876
Reclassifications of derivative liability to APIC	(442,076)

Balance June 30, 2017	$	333,300

The carrying values for cash and cash equivalents, prepaid assets, accounts payable and accrued liabilities, related party line of credit and notes payable approximate their fair value due to their short term maturities.

Note 6 – Line of Credit – Related Party

Effective December 31, 2012, we entered into a line of credit arrangement with John D. Gibbs, a significant investor, to facilitate timely cash flows for the Company's operations. The line of credit originally provided for a maximum balance of $250,000, accrued interest at 6% annually, and matured on December 31, 2014.

On December 31, 2013 we amended our credit agreement with Mr. Gibbs to increase the borrowing limit under the line of credit to $750,000. All other terms of the credit agreement, including the interest rate and maturity date remained unchanged.

On December 31, 2014, we again amended the credit agreement to increase the borrowing limit to $900,000 and extend the maturity date to December 31, 2015. As part of the 2014 amendment and the subsequent appointment of Dr. Pierce Carson as the President, CEO and Director of G+W effective June 1, 2015, we had pledged all of our 85% equity interest in G+W, which owns the Silver District properties, as security for all amounts outstanding under the credit agreement. In July 2016, we completed a share exchange with Dr. Carson to re-acquire the 15% interest in G+W, and therefore at June 30, 2017 our entire 100% interest in G+W remains pledged as security for outstanding amounts under this credit agreement.

On December 31, 2015 we again amended the credit agreement to increase the borrowing limit to $1,000,000 and extended the maturity date to December 31, 2016.

Finally, on March 31, 2017 with an effective date of December 31, 2016 we again amended the credit agreement to extend the maturity date to December 31, 2018. All other terms of the agreement were unchanged. At June 30, 2017 the Company has an additional $67,500 available under the credit line.

During the six months ended June 30, 2016, draws totaling $45,000 were made and were primarily used to fund working capital and certain obligations due to maintain our mining rights and properties. No draws were made during the six months ended June 20, 2017. At both December 31, 2016 and June 30, 2017 a total of $932,500 was outstanding under this line of credit. In addition, a total of $185,299 and $157,707 of interest has been accrued on this obligation and is included in Accrued interest - related parties on the accompanying consolidated balance sheets at June 30, 2017 and December 31, 2016, respectively.

Note 7 – Notes Payable – Related Parties

In August 2011, we entered into an unsecured loan from John Power, the Company's Chief Financial Officer, evidenced by a $20,000 promissory note. The promissory note bears interest at 6% per annum and is payable on demand with thirty days' notice from the lender. During 2014, the Company made payments totaling $5,000 to pay down the principal balance of the note. At both June 30, 2017 and December 31, 2016, the note balance was $15,000. At June 30, 2017 and December 31, 2016, interest totaling $1,119 and $676, respectively, was accrued on this note payable and is included in Accrued interest – related parties on the accompanying consolidated balance sheets.

In January 2014, we entered into an additional unsecured loan from Mr. Power, evidenced by a $50,000 promissory note. The promissory note bears interest at 6.75% per annum and is payable on demand with thirty days' notice from the lender. At June 30, 2017 and December 31, 2016, interest totaling $4,538 and

$2,874, respectively, was accrued on this note payable and is included in Accrued interest – related parties on the accompanying consolidated balance sheets. At both June 30, 2017 and December 31, 2016, the note balance was $50,000.

During the third quarter of 2016, we entered into an additional unsecured loan from Mr. Power, evidenced by a $35,000 promissory note that was subsequently paid in full during the fourth quarter of 2016. At December 31, 2016 unpaid accrued interest of $382 remained on this note and was included in Accrued interest – related parties on the accompanying consolidated balance sheet at December 31, 2016. During the six months ended June 30, 2017 the remaining accrued interest of $382 was paid to Mr. Power.

On May 31, 2017 we entered into three short-term notes with Mr. Gibbs, Dr. Carson and Mr. Power in the principal amounts of $100,000, $25,000 and $25,000, respectively. The notes bear interest at 6% and mature on November 15, 2017. As of June 30, 2017 a total of $740 of interest had accrued on these notes.

On June 30, 2017 we entered into an additional secured loan for advances from Mr. Power and evidenced by a $125,000 promissory note. The promissory note bears interest at 6% per annum and matures on December 31, 2017. The note is collateralized by our investment in Rio Silver shares and warrants.

Note 8 – Convertible Note Payable and Derivative Liability

On October 1, 2014, we issued a convertible promissory note to a provider of legal services in the original principal amount of $51,532. The note was issued to evidence the Company's indebtedness for legal services previously rendered. Interest accrues quarterly on the outstanding principal and interest balance of the Note at 6% per annum. The principal plus accrued and unpaid interest was due upon five days' written demand of the note holder. The note is unsecured.

The note principal and accrued interest was convertible at any time into shares of common stock at a conversion price of $0.039, which represented the closing bid price of the common stock on the OTC Bulletin Board on the date of issuance.

In April 2016 the note holder elected to convert a total of $23,400, consisting of $18,512 of principal and $4,888 of accrued interest. The conversion resulted in the issuance of 600,000 shares of the Company's common stock. As a result of the conversion, a total of $20,044 of the derivative liability associated with the note was reclassified to additional paid in capital on the conversion date. At December 31, 2016 the remaining note balance was $33,020.

On April 14, 2017 the Company and the note holder agreed to modify the terms of the note to reduce the conversion rate from $0.039 to $0.01, and the maturity terms from five days written demand to 180 days. Immediately subsequent to the modifications, the note holder converted $20,000 of the principal into 2,000,000 shares of common stock. This transaction resulted in a total of $173,146 of the derivative liability reclassified to additional paid-in capital. Immediately following the conversion, the note principal balance was $13,020 together with accrued interest of $1,830. The Company agreed to pay the note holder $8,850 in cash consisting of $7,020 of principal and the $1,830 accrued interest. The agreement to pay the principal and accrued interest in cash resulted in a $76,621 reduction of the derivative liability, which was recorded as a gain on change of the derivative liability. As of June 30, 2017 this amount had not been paid and is included in accounts payable. Following these transactions the note had a principal balance of $6,000 and no accrued interest.

Immediately following the modifications and conversion, the note holder agreed to sell the note to a third party, Bright Star International, Inc. ("Bright Star"), with which the Company subsequently entered into an investor and public relations consulting agreement effective May 22, 2017. Upon the sale of the note to Bright Star, the Company again agreed to further reduce the conversion rate from $0.01 to $0.001. All other provisions of the note remained unchanged. Bright Star elected to convert $3,000 of the remaining principal into 3,000,000 shares of the Company’s common stock. This transaction resulted in a total of $268,930 of the derivative liability transferred to Additional paid-in capital. As of June 30, 2017 the note had a principal balance of $3,000 and had accrued additional interest of $38.

The note contains certain anti-dilution provisions that would reduce the conversion price should the Company issue common stock equivalents at a price less than the note conversion price. Accordingly, the conversion features of the note are considered a discount to the note. However, since the note is payable upon demand by the note holder, the value of the discount was considered interest expense at the time of its inception.

The note is evaluated quarterly or upon a triggering event, and upon any valuations in which the value of the discount changes we recognize a gain or loss due to a decrease or increase, respectively, in the fair value of the derivative liability. We estimate the fair value of the derivative 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 note. 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 note.

The note was evaluated upon the initial change in the conversion rate from $0.039 to $0.01. This evaluation resulted in an increase of the liability and a loss on change of the derivative liability of $239,640. The note was again evaluated upon the additional reduction of the conversion rate from $0.01 to $0.001. This evaluation resulted in an increase of the liability and a loss on change of the derivative liability of $485,917.

The following table summarizes the assumptions used to value the derivative liability on April 14 for each change in the conversion rate:

Fair value assumptions – derivative:	**April 14, 2017**
Risk free interest rate	1.03%
Expected term (years)	1.0
Expected volatility	154%
Expected dividends	0%

Finally, on June 30, 2017 the fair value of the derivative liability was determined to be $333,300 resulting in an additional loss on change of the derivative liability of $64,370 at June 30, 2017. The quarterly and special evaluations combined with the gain resulting from the agreement to pay a portion of the principal and interest to the original note holder have resulted in a total loss on changes of the derivative liability of $713,306 and $655,876 for the three and six-months ended June 30, 2017, respectively. For the three and six months ended June 30, 2016 we recorded losses on the change in the derivative liability of $163,724 and $146,534, respectively.

The following table summarizes the assumptions used to value the derivative liability at June 30, 2017:

Fair value assumptions – derivative:	**June 30, 2017**
Risk free interest rate	1.24%
Expected term (years)	1.0
Expected volatility	161%
Expected dividends	0%

The following table summarizes the assumptions used to value the derivative liability at December 31, 2016:

Fair value assumptions – derivative:	December 31, 2016
Risk free interest rate	0.85%
Expected term (years)	1.0
Expected volatility	158%
Expected dividends	0%

A total of $38 and $1,316 of interest had accrued on the note at June 30, 2017 and December 31, 2016, respectively, and is included in Accrued interest on the accompanying consolidated balance sheets.

Note 9 – Equity

Sales of common stock and warrants:

During the six months ended June 30, 2017 we completed private placements of equity securities with three investors in which we sold a total of 1,250,000 units priced at $0.10 per unit, resulting in total proceeds of $125,000. Each unit comprised of one share of common stock, and one warrant entitling the holder to purchase one share of common stock at a price of $0.10 per share in cash, and expire December 30, 2017. The warrants include anti-dilution rights for stock splits, stock dividends and the sale of substantially all the Company's assets. We allocated the proceeds of the offering to additional paid-in capital based on the relative fair values of the equity instruments at the dates of the sale transactions in the following manner: common stock issued at 59%, and the warrants at 41%.

In June 2016, we completed a private placement of equity securities in which we sold 4,875,000 units priced at $0.04 per unit. Each unit was comprised of one share of common stock, one Class A warrant and one Class B warrant, each with original expiration dates of December 30, 2016. The sale resulted in net proceeds of $194,325, which were net of $675 of direct offering costs. Each Class A warrant entitles the holder to purchase one share of common stock at a price of $0.07 per share in cash. Each Class B warrant entitles the holder to purchase one share of common stock at a price of $0.10 per share, exercisable in either cash or pursuant to a cashless exercise. All warrants include anti-dilution rights for stock splits, stock dividends and the sale of substantially all the Company's assets. We allocated the proceeds of the offering to additional paid-in capital based on the relative fair values of the equity instruments at the dates of the sale transactions in the following manner: common stock issued at 49%, the Class A warrants at 29%, and the Class B warrants at 22%. Both the Class A and Class B warrants were to expire December 30, 2016, but were extended by the Company to February 28, 2017. The Company further extended the expiration date of the Class B warrants to June 30, 2017 for any warrant holders who exercised their Class A warrants in entirety prior to the February 28, 2017 expiration date. None of the Class A warrants were exercised prior to expiration, and therefore all the Class A and Class B warrants expired unexercised on February 28, 2017, in accordance with the warrant agreements.

In November 2016, in a private placement of equity securities with two investors we sold 1,100,000 units priced at $0.10 per unit, resulting in net proceeds of $110,000. Each unit comprised of one share of common stock, and one warrant entitling the holder to purchase one share of common stock at a price of $0.10 per share in cash, and expire December 30, 2017. The warrants include anti-dilution rights for stock splits, stock dividends and the sale of substantially all the Company's assets. We allocated the proceeds of the offering to additional paid-in capital based on the relative fair values of the equity instruments at the dates of the sale transactions in the following manner: common stock issued at 59%, and the warrants at 41%.

Investor Relations contract – Mining Clips LLC: On October 15, 2016 the Company executed a letter agreement with Mining Clips LLC, to provide marketing, public relations and outreach management services. The initial term of the agreement was three months and would rollover for additional three month periods until such time a mutually agreed upon change is made, or it is terminated by the Company with thirty days notice prior to the end of the three month period in which the agreement is active. The initial compensation for the services included cash payments totaling $11,250, payable in equal monthly installments during the term of the agreement. As of June 30, 2017 all the monthly installments due have been paid. In addition to the cash payments, a total of 62,500 shares of the Company's common stock were issued as compensation for the initial three-month service period. The shares issued were valued at $8,125, which was amortized over the three-month service period. The agreement was not renewed after the initial three-month period. No additional shares of the Company's common stock have been issued under this agreement and the original agreement has been terminated. However, Mining Clips has continued to perform services on an at-will basis for a fe