

MAGELLAN GOLD Corp  
Form 10-Q  
May 14, 2015

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

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2015

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

(State or other jurisdiction of incorporation or organization)

2010A Harbison Drive #312, Vacaville, CA

(Address of principal executive offices)

27-3566922

(IRS Employer Identification Number)

95687

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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 ]

(Do not check if a smaller reporting company)

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

On May 13, 2015 there were 48,869,091 shares of the registrant’s common stock, \$.001 par value, outstanding.

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****MAGELLAN GOLD CORPORATION  
CONSOLIDATED BALANCE SHEETS**

	March 31, 2015 <i>(unaudited)</i>	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
	\$	\$
Cash and cash equivalents	7,613	94
Prepaid expenses	5,625	-
Total current assets	13,238	94
Mineral rights, net of impairment	323,200	323,200
Deposits with BLM	8,639	8,639
	\$	\$
Total assets	345,077	331,933
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current liabilities:		
	\$	\$
Accounts payable	36,055	19,700
Line of credit - related party	769,604	729,604
Accrued interest - related parties	70,513	58,377
Accrued interest	1,545	771
Advances payable - related party	-	2,850
Notes payable - related parties	65,000	65,000
Convertible note payable	51,532	51,532
Derivative liability	34,840	30,520
Total current liabilities	1,029,089	958,354
Shareholders' deficit:		
Preferred shares, \$.001 par value, 25,000,000 shares authorized, no shares issued and outstanding	-	-
	48,869	48,869

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Common shares - \$0.001 par value; 100,000,000 shares authorized, 48,869,091 shares issued and outstanding		
Additional paid-in capital	419,831	419,831
Accumulated deficit	(1,152,712)	(1,095,121)
Total shareholders' deficit	(684,012)	(626,421)
	\$	\$
Total liabilities and shareholders' deficit	345,077	331,933

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*

MAGELLAN GOLD CORPORATION  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
*(unaudited)*

	Three months ended March 31,	
	2015	2014
Operating expenses:	\$	\$
Exploration costs	1,969	13,737
General and administrative expenses	38,392	24,522
Total operating expenses	40,361	38,259
Operating loss	(40,361)	(38,259)
Other income (expense):		
Interest expense	(12,910)	(7,337)
Loss on change in derivative	(4,320)	-
	\$	\$
Net loss	(57,591)	(45,596)
Basic and diluted net loss per common	\$	\$
share	(0.00)	(0.00)
Basic and diluted weighted-average common shares outstanding	48,869,091	48,869,091

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*



MAGELLAN GOLD CORPORATION  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Operating activities:		
	\$	\$
Net loss	(57,591)	(45,596)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss in derivative liability	4,320	-
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(5,625)	(1,260)
Accounts payable and accrued expenses	16,355	7,470
Accrued interest	12,910	7,337
Net cash used in operating activities	(29,631)	(32,049)
Investing activities:		
Acquisition of mineral rights	-	(80,000)
Net cash used in investing activities	-	(80,000)
Financing activities:		
Advances on line of credit - related party	40,000	60,000
Proceeds from advances from related parties	-	4,500
Payments on advances from related parties	(2,850)	(4,500)
Proceeds from notes payable - related parties	-	50,000
Net cash provided by financing activities	37,150	110,000
Net increase (decrease) in cash	7,519	(2,049)
Cash at beginning of period	94	2,128
	\$	\$
Cash at end of period	7,613	79
Supplemental disclosure of cash flow information		
Cash paid for interest	\$	\$

	\$	-	\$	-
Cash paid for income taxes		-		-

*The accompanying notes are an integral part of these unaudited consolidated financial statements.*



**MAGELLAN GOLD CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

We use the terms “Magellan,” “we,” “our,” and “us” to refer to Magellan Gold Corporation.

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

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.

We have only recently begun operations and we rely upon the sale of our securities and borrowings from 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 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-month period ended March 31, 2015 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, 2014.

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. Magellan owns all the outstanding common stock of 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.

***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 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 March 31, 2015, we had not yet generated any revenues or achieved profitable



operations and we have accumulated losses of \$1,152,712. 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, 2014 we amended our credit agreement with Mr. John Gibbs, a related party, to increase the borrowing limit to \$900,000, which provides the Company an additional \$130,396 available under the credit line at March 31, 2015. As part of the 2014 amendment, we pledged 100% of our equity in our newly-formed subsidiary, G+W, which owns all our ownership interests in the Silver District properties as security for all amounts outstanding under the credit agreement. 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:**

As of March 31, 2015 and December 31, 2014, our mineral rights and properties consist of the following:

	March 31, 2015	December 31, 2014
Silver District Claims	\$ 323,200	\$ 323,200
Sacramento Mountains Project	-	-
	\$ 323,200	\$ 323,200

***Silver District Claims***

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.

During February 2014 and January 2013, we paid the final two payments of \$80,000 and \$30,000, respectively, towards the purchase of the James Blaine-patented claim purchase obligation entered into between Columbus and a third party. We also paid all of the costs to maintain all of the claims and leases during 2013 and 2014. On September 30, 2014, we paid an additional \$100,000 to Columbus Exploration and acquired all of Columbus' interest in its Silver District properties located in La Paz County, Arizona. See also Note 7 regarding certain commitments for future payments for these claims.

The Silver District property consists of 110 unpatented lode and millsite mining claims, four patented lode claims, and an Arizona land lease, all of which are held directly or under lease agreements, totaling over 2,000 acres. The various claims are subject to third party net smelter royalties and/or net profits of varying percentages.

In August 2014, we renewed the BLM lode and mill site claims with the Bureau of Land Management and recorded a notice of intent to hold mining claims with La Paz County, Arizona and these claims remain in good standing through August 31, 2015. In July 2013, we staked and filed with the Bureau of Land Management and recorded with La Paz County an additional 9 lode claims or approximately 180 acres to our Silver District land holdings. We renewed two of those claims with the Bureau of Land Management in August 2014 and they will remain in good standing through August 31, 2015.

During August 2014, we made an advance minimum royalty payment of \$7,500 to a third party landowner on the Red Cloud lease which includes the Red Cloud Patented claim and two BLM lode claims under the Columbus option agreement and in September 2014 successfully renewed the exploration permit on portions of the Arizona State section that comprises part of our Silver District land package.

### ***Sacramento Mountains Project***

Magellan staked fifty (50) unpatented lode mining claims known as the “Sacramento Mountains Project” totaling approximately 1,000 acres, in which it has a 100% unencumbered interest, on Federal (BLM) land in October 2012 and filed the claims with the BLM in January 2013. The project is located in the northwest corner of the Sacramento Mountains approximately 10 miles WNW of Needles, California. In August 2014, we renewed these claims with the Bureau of Land Management and our claims will remain in good standing through August 31, 2015.

During 2013, we paid \$8,639 to the Bureau of Land Management (“BLM”) representing a deposit for potential reclamation of proposed drilling sites should the Company decide to drill exploratory holes on its Sacramento Mountains project. The deposit is included in other non-current assets in the accompanying consolidated balance sheets at March 31, 2015 and December 31, 2014 as deposits with BLM.

A plan of operation for a small exploration drill program was submitted and approved by the Bureau of Land Management in 2013. As of the date of this report, no decision to drill within the project has been made. Our permit expires in February 2017. Due to the decline in precious metals prices and the absence of currently available funds to further develop this early stage project, we recorded an impairment charge equal to the amount of our capitalized mineral rights at December 31, 2013 in the amount of \$10,350. We intend to leave our deposit in place for the Sacramento Mountains project with the BLM and maintain our claims so that the project is available for further exploration should capital formation conditions improve.

### **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:

	Fair Value at March 31, 2015	Fair Value Measurement at March 31, 2015		
		Level 1	Level 2	Level 3
Derivative conversion option liability	\$ 34,840	\$ —	\$ —	\$ 34,840

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 notes and 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 – Line of Credit – Related Parties:**

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. Also, effective December 31, 2014 the Company pledged all its ownership interest in the Company's wholly-owned subsidiary, Gulf+Western Industries, Inc. as security for amounts outstanding under the credit agreement.

During the three months ended March 31, 2015 and 2014, draws totaling \$40,000 and \$60,000 were made, and were primarily used to fund working capital and certain obligations due to maintain our mining rights and properties. At March 31, 2015 a total of \$769,604 was outstanding under this line of credit. In addition, a total of \$64,709 of interest has been accrued on this obligation and is included in Interest payable - related parties on the accompanying consolidated balance sheet at March 31, 2015.





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

In August 2011, we entered into an unsecured loan from John Power, the Company's sole executive 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 the second quarter of 2014, the Company made payments totaling \$5,000 to pay down the principal balance of the note. At March 31, 2015 the Note balance was \$15,000.

In January 2014, we entered into an unsecured loan from John Power, the Company's sole executive officer, 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.

A total of \$5,804 of interest was accrued on these two promissory notes and is included in Accrued interest - related parties on the accompanying consolidated balance sheet at March 31, 2015.

**Note 6 – Convertible Notes Payable:**

On October 1, 2014, we issued a Convertible Promissory Note ("Note") to a provider of legal services in the original principal amount of approximately \$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 is due upon five days' written demand of the Note holder. The Note is unsecured.

The Note is 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.

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 is considered interest expense at the time of its inception. The Note shall be evaluated quarterly, and upon any quarterly valuations in which the value of the discount increases, we recognize a loss due to an increase in the fair value of the derivative liability. Therefore, we recorded a derivative liability at the Note inception, and adjusted the liability at December 31, 2014 and again on March 31, 2015. As a result of these valuations, \$29,940 of interest expense was incurred during the quarter ended December 31, 2014 and \$580 was recorded as a loss due to change in fair value of derivative. On March 31, 2015 the fair value of the derivative liability was determined to be \$34,840, resulting in a loss on change of derivative liability charge of \$4,320 for the three months ended March 31,

2015.

We estimate the fair value of this derivative at each balance sheet date until such time the Note is paid or converted.

We estimated the fair value of the derivative at December 31, 2014 and March 31, 2015 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 following table summarizes the assumptions used to value the derivative Note discount at March 31, 2015:

<b>Fair value assumptions – derivative:</b>	<b>March 31, 2015</b>
Risk free interest rate	0.26%
Expected term (years)	1.0
Expected volatility	162%
Expected dividends	0%

The following table summarizes the assumptions used to value the derivative Note discount at December 31, 2014:

<b>Fair value assumptions – derivative:</b>	<b>December 31, 2014</b>
Risk free interest rate	0.25%
Expected term (years)	1.0
Expected volatility	162%
Expected dividends	0%

A total of \$1,545 and \$771 of interest has accrued on the Note at March 31, 2015 and December 31, 2014, respectively, and is included in Accrued interest on the accompanying consolidated balance sheets.

**Note 7 - Commitments and Contingencies:**

As part of our acquisition of the Silver District properties from Columbus Exploration, we assumed the Red Cloud lease whose initial term expires in August 2026. The lease requires annual advance minimum royalty payments of \$10,000 through the term of the lease due on the annual anniversary of the agreement. The lease is also subject to a 2% net production royalty to be paid to the lessor from the sale of precious metals extracted from the leased property.

In order to maintain the BLM lode and mill site claims and the Arizona land lease, annual payments are required before the end of August of each year.

**Note 8 – Related Party Transactions:**

***Conflicts of Interests***

Athena Silver Corporation (“Athena”) is a company under common control. Mr. Power is also a director and CEO of Athena. Mr. Gibbs is a significant investor in both Magellan and Athena. Magellan and Athena are both exploration stage companies involved in the business of acquisition and exploration of mineral resources.

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

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

***Management Fees***

The Company maintains 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 Magellan.

Management fees to Mr. Power totaling \$7,500 for both the three months ended March 31, 2015 and 2014 are included in general and administrative expenses in our statement of operations. All management fees due Mr. Power through March 31, 2015 have been paid.

***Accrued Interest - Related Parties***

Accrued interest due to related parties is included in our consolidated balance sheets as follows:

	March 31, 2015	December 31, 2014
Accrued interest payable - Mr. Power	\$ 5,804	\$ 4,750
Accrued interest payable - Mr. Gibbs	64,709	53,627
	\$ 70,513	\$ 58,377

***Advances Payable – Related Parties***

We borrowed and repaid non-interest bearing advances from/to related parties as follows:

	Three Months Ended March 31, 2015	
	Advances	Repayments
Mr. Power	\$ -	\$ 2,850

  

	Three Months Ended March 31, 2014	
	Advances	Repayments
Mr. Power	\$ 4,500	\$ 4,500

At March 31, 2015 and December 31, 2014, \$-0- and \$2,850, respectively, of advances from related parties were outstanding.

The Company also utilizes a credit card owned by Mr. Power to pay various obligations when the availability of cash is limited or the timing of the payments is considered critical. A total of \$3,786 and \$650 of Company charges were outstanding on this credit card at March 31, 2015 and December 31, 2014, respectively, and is included in Accounts payable on the accompanying consolidated balance sheets.

#### **Note 9 – Subsequent Events**

Subsequent to March 31, 2015, additional advances totaling \$10,000 were made on the Company's credit agreement with Mr. Gibbs.

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

We use the terms "Magellan," "we," "our," and "us" to refer to Magellan Gold Corporation.

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 financial statements which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the Commission on March 23, 2015, and our interim unaudited condensed 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". These forward-looking statements include, but are not limited to, statements that include terms such as "may," "will," "intend," "anticipate," "estimate," "expect," "continue," "believe," "plan," or the 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.

### **Overview**

We were incorporated on September 28, 2010, in Nevada. Our principal business is the acquisition and exploration of mineral resources. We have not presently determined whether the properties to which we have mineral rights contain mineral reserves that are economically recoverable.

We have only had limited operations to date and we rely upon the sale of our securities and borrowings from significant investors to fund our operations, as we have not generated any revenue.

In August 2012, we entered into an option agreement to purchase "The Silver District" project consisting of 85 unpatented lode mining claims, 4 patented lode claims, an Arizona mining lease of 154.66 acres and 23 unpatented mill site claims, totaling over 2,000 acres in La Paz County, Arizona. In 2013, we added 9 unpatented lode mining claims to the claim block, which we subsequently reduced by 7 claims resulting in a net addition of 2 claims. In September 2014, we renegotiated our option agreement and purchased the Silver District claims from Columbus



Exploration. In addition, all our ownership interests in the Silver District properties have been pledged as security for amounts outstanding under the credit agreement we have with Mr. John D. Gibbs. As of March 31, 2015, the total amount owed under the credit agreement was \$834,313, which includes \$769,604 of principal and \$64,709 of accrued interest.

We also have staked fifty (50) unpatented lode mining claims known as the “Sacramento Mountains” project totaling approximately 1,000 acres, in which we have a 100% unencumbered interest, on Federal (BLM) land in October 2012 and filed the claims with the BLM in January 2013 which were renewed with the BLM in 2013 and 2014. The Project is located in the northwest corner of the Sacramento Mountains approximately 10 miles WNW of Needles, California.

Our primary focus during the next twelve months, and depending on available resources, will be to further explore our mineral properties.

## Results of Operations

### *Results of Operations for the three months Ended March 31, 2015 and 2014*

	Three Months Ended March 31,	
	2015	2014
Operating expenses:	\$	\$
Exploration costs	1,969	13,737
General and administrative expenses	38,392	24,522
Total operating expenses	40,361	38,259
Operating loss	(40,361)	(38,259)
Other income (expense):		
Interest expense	(12,910)	(7,337)
Loss on change in derivative	(4,320)	-
	\$	\$
Net loss	(57,591)	(45,596)
<i>Operating expenses</i>		

During the three months ended March 31, 2015, our total operating expenses were \$40,361 as compared to \$38,259 during the three months ended March 31, 2014.

During the three months ended March 31, 2015 we incurred \$1,969 of exploration costs as compared to \$13,737 in 2014. Exploration costs for the three months ended March 31, 2015 are comprised of geologist fees associated with oversight of our holdings and review of potential opportunities.



During the three months ended March 31, 2014 we incurred \$13,737 of exploration costs. Exploration costs for the three months ended March 31, 2014 are primarily comprised of \$11,651 in consulting geologist fees and related expenses associated with the preparation for our exploratory drilling program on our Silver District project performed in 2014. Other exploration costs totaling \$2,086 primarily consist of other exploration related costs associated with a planned drill program.

General and administrative expenses for the three months ended March 31, 2015 totaling \$38,392 were comprised professional fees including accounting and audit fees of \$17,220, legal fees totaling \$8,908, management fees to Mr. Power totaling \$7,500, other professional fees of \$2,462, and other expenses totaling \$2,302 mainly comprised of travel expenses, transfer fees paid to the BLM, licenses and other administrative related expenses.

General and administrative expenses for the three months ended March 31, 2014 totaling \$24,522 were comprised professional fees including accounting and audit fees of \$10,723, legal fees totaling \$3,370, management fees to Mr. Power totaling \$7,500, investor relations fees totaling \$724, advertising and promotional fees of \$1,768, and other expenses totaling \$437 mainly comprised of bank service fees and other office related expenses.

Interest expense for the three months ended March 31, 2015 and 2014 totaled \$12,910 and \$7,337, respectively, and is primarily attributable to our related party line of credit, which accrues interest at the rate of 6.0% per year, and our related party notes payable which accrue interest at a weighted average interest rate of 6.58%.

In addition, in October 2014 we converted certain amounts payable to a legal services provider into a Convertible Note Payable. Interest accrues quarterly on the outstanding principal and interest balances of the Note at 6% per annum.

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 is considered interest expense at the time of its inception. The Note is evaluated quarterly, and upon any quarterly valuations in which the value of the discount increases, we recognize a loss due to an increase in the fair value of the derivative liability. Therefore, we recorded a derivative liability at the Note inception, and adjusted the liability at March 31, 2015 and December 31, 2014, which resulted in losses on the change in the derivative liability of \$4,320 and \$580, respectively. We estimate the fair value of this derivative at each balance sheet date until such time the Note is paid or converted.

We estimated the fair value of the derivative at March 31, 2015 and December 31, 2014 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 following table summarizes the assumptions used to value the derivative Note discount at March 31, 2015:

**March 31,**

**Fair value assumptions – derivative:**

**2015**

Risk free interest rate	0.26%
Expected term (years)	1.0
Expected volatility	162%
Expected dividends	0%

The following table summarizes the assumptions used to value the derivative Note discount at December 31, 2014:

**Fair value assumptions – derivative:**

**December 31, 2014**

Risk free interest rate	0.25%
Expected term (years)	1.0
Expected volatility	162%
Expected dividends	0%

**Liquidity and Capital Resources:**

We intend to meet our cash requirements for the next 12 months primarily through the utilization of our line of credit, as well as the private placement of debt or equity instruments. We currently do not have any arrangements in place to complete private placement financings and there is no assurance that we will be successful in completing any such financings on terms that will be acceptable to us.

On 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 initially provided for a maximum balance of \$250,000, and accrues interest at 6%, which is payable from time to time and due at maturity. 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. Finally, on December 31, 2014 the agreement was again amended to increase the borrowing limit under the line of credit to \$900,000 and extend the maturity date to December 31, 2015. In addition, on December 31, 2014 we pledged all our ownership interests in the Silver District properties as security for all outstanding amounts under the credit agreement. All other terms of the credit agreement, including the interest rate remained unchanged.

Our primary priority is to retain our reporting status with the SEC, which means that we will first ensure that we have sufficient capital to cover our legal and accounting expenses. Once these costs are accounted for, in accordance with how much financing we are able to secure, we will focus on further exploration and development of our mineral properties. We will likely not expend funds on the remainder of our planned activities unless we have the required capital.

**Cash Flows**

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
Net cash used in operating activities	(29,631)	(32,049)
Net cash used in investing activities	-	(80,000)
Net cash provided by financing activities	37,150	110,000
Net increase (decrease) in cash	7,519	(2,049)
Cash and cash equivalents, beginning of period	94	2,128
	\$	\$
Cash and cash equivalents, end of period	7,613	79

At March 31, 2015, we had \$7,613 in cash and a \$1,015,851 working capital deficit. This compares to cash of \$94 and a working capital deficit of \$958,260 at December 31, 2014.

Net cash used in operating activities during the three months ended March 31, 2015 was \$29,631 and was mainly comprised of our \$(57,591) net loss during the period, which was partially offset with the change in our derivative liability as discussed above in Results of Operations, and an increase in prepaid expenses and other assets totaling \$5,625. We also had increases in accounts payable totaling \$16,355, as well as increases in accrued interest totaling \$12,910 representing accrued interest on our related party line of credit and notes payable.

Net cash used in operating activities during the three months ended March 31, 2014 was \$32,049 and was mainly comprised of our \$(45,596) net loss during the period as well as increases in prepaid expenses and other current assets totaling \$1,260, and increases in accounts payable and accrued expenses totaling \$7,470, as well as increases totaling \$7,337 in amounts due to related parties representing accrued interest on our related party line of credit and notes payable.

During the three months ended March 31, 2015, we had no investing activity transactions. During the three months ended March 31, 2014 we used \$80,000 of cash in investing activities, which represents a payment to Columbus Exploration under our option agreement to make the final installment on the purchase of a patented claim included in the Silver District land package.

During the three months ended March 31, 2015, net cash provided by financing activities was \$37,150, which primarily reflects additional borrowings totaling \$40,000 under our credit agreement with Mr. Gibbs. In addition, we repaid \$2,850 in advances made by Mr. Power.

During the three months ended March 31, 2014, cash provided by financing activities was \$110,000. During the three months ended March 31, 2014 we drew \$60,000 on our credit agreement with Mr. Gibbs. In addition, we received an additional \$50,000 in funding from Mr.



Power in the form of a demand note, which accrues interest at 6.75%. Also, during the three months ended March 31, 2014, Mr. Power advanced the Company \$4,500, all of which has been repaid.

### **Off Balance Sheet Arrangements**

We do not have and have 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 March 31, 2015. No impairment loss was recognized during either the three months ended March 31, 2015 and 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:**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to management, including John C. Power, our President who is also our Principal Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. 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, 2014.

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 Item 1A. to Part I. of our Annual Report on Form 10-K for the year ended December 31, 2014.

**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**

None.

**ITEM 5. OTHER INFORMATION**



None

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**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.\*

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101.INS	XBRL Instance**
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.

**MAGELLAN GOLD CORPORATION**

Dated: May 14, 2015

By: /s/ John C. Power  
John C. Power  
President, Principal Executive Officer,  
  
Principal Accounting Officer, Secretary, Treasurer and director.