SILVER HORN MINING LTD.
Form 10-Q
August 19, 2013

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File Number: 000-25097

Silver Horn Mining Ltd.
(Exact name of registrant as specified in its charter)

Delaware	65-0783722
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

3346 W. Guadalupe Rd., Apache Junction, Arizona 85120
(Address of principal executive offices) (Zip Code)

(480) 288-6530
(Registrant’s telephone number, including area code)

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 o

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 o

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if smaller reporting company)	o	Smaller reporting company	x

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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 19, 2013, there were 253,033,555 shares of common stock, par value $0.0001, issued and outstanding.

SILVER HORN MINING LTD. AND SUBSIDIARIES
(AN EXPLORATION STAGE COMPANY)
FORM 10-Q
June 30, 2013

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OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, “Silver Horn,” “Eclips,” “we,” “us,” “our” and similar terms refer to Silver Horn Mining Ltd., a Delaware corporation, and subsidiaries.

Silver Horn Mining, Ltd.
(A Exploration Stage Company)
Condensed Consolidated Balance Sheets

ASSETS

	June 30, 2013 (UNAUDITED)	December 31, 2012
Current Assets		
Cash	$ -	$ 20
Prepaid expenses	-	7,500
Total Current Assets	-	7,520
Total Assets	$ -	$ 7,520

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

	June 30, 2013 (UNAUDITED)	December 31, 2012
Current Liabilities		
Accounts payable and accrued expenses	$ 535,889	$ 492,766
Accounts payable - related party	1,138,922	849,170
Derivative liability	49,396	50,888
Convertible notes payable, net of debt discounts	237,132	210,110
Liabilities for discontinued operations	112,397	112,397
Total Current Liabilities	2,073,736	1,715,331
Commitments and Contingencies		
Stockholders' Deficiency		
Preferred stock, $0.0001 par value; 10,000,000 shares authorized		
Series A, 3,000,000 issued and outstanding	300	300
Series B, none issued and outstanding	-	-
Series C, none issued and outstanding	-	-
Series D, 1,000,000 issued and outstanding	100	100
Common stock, $0.0001 par value; 750,000,000 shares authorized, 253,033,555 shares issued and outstanding	25,303	25,303
Additional paid-in capital	47,859,648	47,859,648
Accumulated deficit	(41,947,270)	(41,947,270)
Accumulated deficit since inception of exploration stage (April 25, 2011)	(8,011,817)	(7,645,892)
Total Stockholders' Deficiency	(2,073,736)	(1,707,811)
Total Liabilities and Stockholders' Deficiency	$ -	$ 7,520

See accompanying notes to condensed consolidated financial statements

Silver Horn Mining, Ltd.
(An Exploration Stage Company)
Condensed Consolidated Statements of Operations
(UNAUDITED)

	For the Three Months Ended,		For the Six Months Ended		For the Period From April 25, 2011 (Inception) to June 30, 2013
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	
Net revenues	$-	$-	$-	$-	$-
Operating Expenses					
Payroll expense and stock based compensation	59,314	86,262	130,117	3,714,174	4,515,535
Management fees - related party	75,000	-	150,000	-	450,000
Exploration cost	-	29,587	5,000	40,536	277,195
Impairment of mineral rights	-	-	-	-	500,000
Professional and consulting	12,489	38,324	33,085	109,311	622,104
General and administrative expneses	7,403	117,590	6,025	216,971	422,150
Total Operating Expenses	154,206	271,763	324,227	4,080,992	6,786,984
Loss from Operations	(142,715)	(271,763)	(324,227)	(4,080,992)	(6,786,984)
Other Income / (Expense)					
Interest expense	(14,087)	(31,411)	(43,190)	(51,632)	(531,997)
Derivative expense	-	(174,129)	-	(174,129)	(174,128)
Change in fair value of derivative liability	(13,655)	44,735	1,492	44,735	(518,708)
Total Other Expense, net	(27,742)	(160,805)	(41,698)	(181,026)	(1,224,833)
Net Loss	$(181,948)	$(432,568)	$(365,925)	$(4,262,018)	$(8,011,817)
Net Loss Per Share - Basic and Diluted	$(0.00)	$(0.00)	$(0.00)	$(0.02)	
Weighted average number of shares outstanding during the year Basic and Diluted	253,033,555	253,033,555	253,033,555	245,467,621	

See accompanying notes to condensed consolidated financial statements

Silver Horn Mining, Ltd.
(An Exploration Stage Company)
Condensed Statements of Cash Flows
(UNAUDITED)

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012	For the Period From April 25, 2011 (Inception) to June 30, 2013
Cash Flows From Operating Activities:			
Net Loss	$(365,925)	$(4,262,018)	$(8,011,817)
Adjustments to reconcile net loss to net cash used in operations			
Amortization of prepaid expenses	-	-	95,034
Amortization of debt issuance costs	-	517	5,206
Amortization of debt discount	27,022	47,460	480,986
Impairmnet of mineral rights	-	-	500,000
Derivative liability expense	-	174,129	174,128
Change in fair value of derivative liabilities	(1,492)	(44,735)	518,708
Stock based consulting	-	-	130,000
Stock based compensation expense	-	41,516	373,648
Common stock issued for services	-	3,500,000	3,500,000
Changes in operating assets and liabilities:			
(Increase)/decrease in prepaid expenses	7,500	26,473	11,142
Increase in accounts payable and accrued expenses	332,875	374,357	1,439,134
Net Cash Used In Operating Activities	(20)	(142,301)	(783,831)
Cash Flows From Financing Activities:			
Proceeds from issuance of preferred stock	-	-	50,000
Proceeds from issuance of common stock	-	-	550,000
Proceeds from exercise of stock warrants	-	-	-
Net proceeds from debentures	-	127,500	127,500
Net Cash Provided by Financing Activities	-	127,500	727,500
Net decrease in Cash	(20)	(14,801)	(56,331)
Cash at Beginning of Period	20	15,047	56,331
Cash at End of Period	$-	$246	$-
Supplemental disclosure of cash flow information:			
Cash paid for interest	$-	$-	$-
Cash paid for taxes	$-	$-	$-
Supplemental disclosure of non-cash investing and financing activities:			
Contributed capital in connection with an extinguishment of a convertible debenture	$-	$-	$31,666.00

Issuance of common stock for convertible debentures	$-	$55,000	$505,000.00
Reclassification of derivative liability to equity	$-	$-	$9,662,196.00
Issuance of common stock in connection with the transfer and conveyance of certain silver mining claim	$-	$-	$500,000.00
Issuance of convertible promissory notes	$-	$105,882	$105,882.00

See accompanying notes to condensed consolidated financial statements

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of Business

The Company was incorporated under the name "Swifty Carwash & Quick-Lube, Inc." in the state of Florida on September 25, 1997. On October 22, 1999, the Company changed its name from "Swifty Carwash & Quick-Lube, Inc." to "SwiftyNet.com, Inc." On January 29, 2001, the Company changed its name from "SwiftyNet.com, Inc." to "Yseek, Inc." On June 10, 2003, the Company changed its name from "Yseek, Inc." to "Advanced 3-D Ultrasound Services, Inc."

The Company merged with a private Florida corporation known as World Energy Solutions, Inc. effective August 17, 2005. Advanced 3D Ultrasound Services, Inc. remained as the surviving entity as the legal acquirer, and the Company was the accounting acquirer. On November 7, 2005, the Company changed its name to World Energy Solutions, Inc. ("WESI"). On November 7, 2005, WESI merged with Professional Technical Systems, Inc. WESI remained as the surviving entity as the legal acquirer, while PTS was the accounting acquirer. On February 26, 2009, the Company had changed its name to EClips Energy Technologies, Inc. On April 25, 2011, the Company changed its name to "Silver Horn Mining Ltd." from "EClips Media Technologies, Inc.".

On March 16, 2010, the Company filed a definitive information statement on Schedule 14C (the "Definitive Schedule 14C") with the Securities and Exchange Commission (the "SEC") notifying its stockholders that on March 2, 2010, a majority of the voting capital stock of the Company took action in lieu of a special meeting of stockholders authorizing the Company to enter into an Agreement and Plan of Merger (the "Merger Agreement") with its then newly-formed wholly-owned subsidiary, EClips Media Technologies, Inc., a Delaware corporation ("EClips Media") for the purpose of changing the state of incorporation of the Company to Delaware from Florida. Pursuant to the Merger Agreement, the Company had merged with and into EClips Media with EClips Media continuing as the surviving corporation on April 21, 2010. On the effective date of the Merger, (i) each issued and outstanding share of common stock of the Company was converted into two (2) shares of EClips Media common stock, (ii) each issued and outstanding share of Series D preferred stock of the Company was converted into two (2) shares of EClips Media Series A preferred stock and (iii) the outstanding shares of EClips Media Common Stock held by the Company were retired and cancelled and resuming the status of authorized and unissued EClips Media common stock. The outstanding 6% convertible debentures of the Company were assumed by EClips Media and converted into outstanding 6% convertible debentures of EClips Media. All options and rights to acquire the Company's common stock, and all outstanding warrants or rights outstanding to purchase the Company's common stock, were automatically converted into equivalent options, warrants and rights to purchase two (2) times the number of shares of EClips Media common stock at fifty (50%) percent of the exercise, conversion or strike price of such converted options, warrants and rights. All shares and per share values are retroactively stated at the effective date of merger.

On June 21, 2010, the Company, through its former wholly-owned subsidiary SD Acquisition Corp., a New York corporation ("SD"), acquired (the "Acquisition") all of the business and assets and assumed certain liabilities of Brand Interaction Group, LLC, a New Jersey limited liability company ("BIG") which is described below. In September 2010, the Company decided to discontinue the operations of SD because of the disappointing performance and negative results of its most recent fantasy league event in August 2010. In December 2010, the Company entered into a spin off agreement (the "Spinoff") with BIG and Mr. Eric Simon, the Company's former CEO, pursuant to which the Company returned the Superdraft business to Mr. Simon by exchanging 100% of the issued and outstanding capital stock of SD which owned and operated the Superdraft business, for the cancellation of 30,000,000 shares of the Company owned by Mr. Simon and BIG, the cancellation of the Asset Purchase Agreement and Employment Agreement entered into between the Company, Mr. Simon and BIG in June 2010.

Effective April 25, 2011, the Company changed its name to "Silver Horn Mining Ltd." from "EClips Media Technologies, Inc.". The name change was effected pursuant to Section 253 of the Delaware General Corporation Law

by merging a newly-formed, wholly-owned subsidiary of the Company with and into the Company, with the Company as the surviving corporation in the merger. Following the subsidiary merger, the Company intends to focus its efforts on mining and resources, principally silver exploration and production. As a result of the Company's focus on mineral exploration, the Company is considered an exploration stage company.

Discontinued Operations

The Company's former operations were developing and manufacturing products and services, which reduce fuel costs, save power & energy and protect the environment. The products and services were made available for sale into markets in the public and private sectors. In December 2009, the Company discontinued these operations and disposed of certain of its subsidiaries, and prior periods have been restated in the Company's consolidated financial statements and related footnotes to conform to this presentation. Additionally, in September 2010, the Company decided to discontinue the operations of SD Acquisition Corp. because of the disappointing performance and negative results of its fantasy league event in August 2010.

The remaining liabilities for discontinued operations are presented in the consolidated balance sheets under the caption “Liabilities for discontinued operation” and relates to the discontinued operations of developing and manufacturing of energy saving and fuel efficient products and services. The carrying amounts of the major classes of these liabilities as of June 30, 2013 and December 31, 2012 are summarized as follows:

	June 30, 2013	December 31, 2012
Assets	$-	$ -
Liabilities		
Accounts Payable and Accrued expenses	(112,397)	(112,397)
Liabilities of discontinued operations	$(112,397)	$ (112,397)

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). The consolidated financial statements of the Company include the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Exploration Stage Company

The Company has been in the exploration stage since April 25, 2011, and has not yet realized any revenues from its planned operations. The Company intends to focus on acquiring and exploring natural resource properties. Accordingly, the Company is an exploration stage company as defined in ASC 915 “Development Stage Entities”.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the years then ended. Actual results may differ significantly from those estimates. Significant estimates made by management include, but are not limited to, the assumptions used to calculate stock-based compensation, derivative liabilities, debt discount and common stock issued for services.

Unaudited Interim Financial Statements

The interim financial statements of the Company as of June 30, 2013, and for the periods then ended, and cumulative from inception, are unaudited. However, in the opinion of management, the interim financial statements include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the Company’s financial position as of June 30, 2013, and the results of its operations and its cash flows for the period ended June 30, 2013, and cumulative from inception. These results are not necessarily indicative of the results expected for the calendar year ending December 31, 2013. The accompanying consolidated financial statements and notes thereto do not reflect all disclosures required under accounting principles generally accepted in the United States. Refer to the Company’s audited consolidated financial statements as of December 31, 2012, filed with the SEC, for additional information, including significant accounting policies.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Company places its cash with a high credit quality financial institution. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. In addition to the basic insurance deposit coverage, the FDIC is providing temporary unlimited coverage for non-interest bearing transaction accounts through June 30, 2013. At June 30, 2013, the Company has not reached bank balances exceeding the FDIC insurance limit on interest bearing accounts. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits.

Fair value of financial instruments

The Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures", for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements which establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 2) from January 1, 2013 to June 30, 2013:

	Convertible Debt	Warrants	Total
Balance at December 31, 2012	$14,996	$35,892	50,888
Change in fair value of derivative liabilities	5,208	(6,700)	(1,492)
Balance at June 30, 2013	$20,204	$29,192	$49,396

The carrying amounts reported in the balance sheet for cash, prepaid expenses, accounts payable, and accrued expenses approximate their estimated fair market value based on the short-term maturity of the instruments. The carrying amount of convertible notes and debentures at June 30, 2013, approximate their respective fair values based on the Company's incremental borrowing rate. The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the accounting guidance.

Mineral Property Acquisition and Exploration Costs

Costs of lease, exploration, carrying and retaining unproven mineral lease properties are expensed as incurred. The Company has chosen to expense all mineral exploration costs as incurred given that it is still in the exploration stage. Once the Company has identified proven and probable reserves in its investigation of its properties and upon development of a plan for operating a mine, it would enter the development stage and capitalize future costs until production is established. When a property reaches the production stage, the related capitalized costs will be amortized, using the units-of-production method over the estimated life of the probable-proven reserves. When the Company has capitalized mineral properties, these properties will be periodically assessed for impairment of value and any diminution in value. To date, the Company has not established the commercial feasibility of any exploration prospects; therefore, all costs are being expensed. During the six months ended June 30, 2013 and 2012, the Company

incurred exploration cost of $5,000 and $40,536. For the period from April 25, 2011 (Inception) through June 30, 2013, the Company incurred exploration cost of $277,195. As of June 30, 2013, the Company has yet to establish proven or probable reserves on any of its mineral properties.

Income Taxes

Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company accounts for income taxes under the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740, “Accounting for Income Taxes. It prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result, the Company has applied a more-likely-than-not recognition threshold for all tax uncertainties. The guidance only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities.

The Company classifies penalties and interest related to unrecognized tax benefits as income tax expense in the Statements of Operations.

Related Parties

Parties are considered to be related to the Company if the parties that, directly or indirectly, through one or more intermediaries, control, are controlled by, or are under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. The Company discloses all related party transactions.

Net Loss per Common Share

Net loss per common share is calculated in accordance with ASC Topic 260: Earnings Per Share ("ASC 260"). Basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. The computation of diluted net earnings per share for all periods presented does not include dilutive common stock equivalents in the weighted average shares outstanding as they were anti-dilutive. The computation of basic and diluted loss per share at June 30, 2013 and 2012 excludes the common stock equivalents of the following potentially dilutive securities because their inclusion would be anti-dilutive:

	June 30, 2013	June 30, 2012
Convertible Debt (Exercise price - $0.05/share)	750,000	6,967,640
Stock Warrants (Exercise price - $0.03 - $0.05/share)	36,750,000	36,000,000
Total	37,500,000	42,967,640

Recent Accounting Pronouncements

There are no recent accounting pronouncements that have had a material impact on our unaudited condensed consolidated financial statements.

NOTE 2 - GOING CONCERN CONSIDERATIONS

The accompanying consolidated financial statements are prepared assuming the Company will continue as a going concern. At June 30, 2013, the Company had an accumulated deficit of approximately $49,959,087, and a working capital deficiency of $2,073,736. For the six months ended June 30, 2013, the Company incurred a net loss of $365,925 and had cash flows used in operations in the amount of $20. The ability of the Company to continue as a going concern is dependent upon obtaining additional capital and financing. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to raise additional funds, there can be no assurances to that effect.

NOTE 3 – MINERAL CLAIMS

As of the date of these consolidated financial statements, the Company has not established any proven or probable reserves on its mineral properties and incurred only acquisition and exploration costs.

THE 76 PROPERTY

The 76 Property is located in Yavapai County, Arizona, 50 miles northwest of Pheonix, Arizona. The property consists of 36 federal unpatented lode mining claims on Bureau of Land Management ("BLM") land totaling 720 acres that the Company acquired pursuant to a quitclaim deed that was purchased from Can-Am Gold Corp. for $10.00 on April 26, 2011 (see Note 7). To maintain the mining claims in good standing, the Company must make annual maintenance fee payments to the BLM, in lieu of annual assessment work. These claim fees are $140 per claim per year, plus an annual fee of $10 per claim per year to Yavapai County. The Company is currently planning an exploration program consisting of sampling, mapping and assaying to determine potential targets for drilling and further development. The 76 Property does not currently have any reserves. All activities undertaken and currently proposed at the 76 Property are exploratory in nature.

THE COD PROPERTY

The COD Property is located in Mohave County, Arizona, 7 miles southwest of Chloride, Arizona. The property consists of 14 federal unpatented lode mining claims on BLM land totaling 280 acres. The Company filed the claims with the BLM on July 1, 2011. To maintain the mining claims in good standing, the Company must make annual maintenance fee payments to the BLM, in lieu of annual assessment work. These claim fees are $140 per claim per year, plus an annual fee of $10 per claim per year to Mohave County. The Company is currently planning an exploration program consisting of sampling, mapping and assaying to determine potential targets for drilling and further development. The COD Property does not currently have any reserves. All activities undertaken and currently proposed at the COD Property are exploratory in nature. On September 18, 2011, the Company received a notice from a third party claiming that, of the Company's 14 mining claims on the COD Property in Mohave County, Arizona, 9 are situated overlapping this third party's 7 claims that allegedly predate the Company's claims, and requesting that the Company cease and desist from sampling or removing any ores from these properties. The Company believes that the third party's demands are without merit. On October 3, 2011 the Company requested that the third party disclaim any interest in its alleged claims by executing and delivering to the Company a quitclaim deed with respect to the third party's 7 claims. If the third party fails to execute and deliver the quitclaim deed by October 25, 2011, the Company may pursue any and all available legal actions and remedies. On October 25, 2011, the third party failed to execute and deliver the quitclaim deed and the Company has initiated legal action regarding the COD claims. The Company filed a complaint on March 16, 2012 against John C. Cost for quiet title and recovery of real property regarding the disputed mining claims. As of June 30, 2013 the case is in discovery, and trial is set for August 20, 2013.

NOTE 4 – CONVERTIBLE DEBENTURES AND NOTES PAYABLE

Convertible Debentures

On December 17, 2009, to obtain funding for working capital, the Company entered into a securities purchase agreement with an accredited investor pursuant to which the Company agreed to issue its 6% senior convertible debentures for an aggregate purchase price of $75,000. The debenture bears interest at 6% per annum and matures twenty-four months from the date of issuance. The debenture will be convertible at the option of the holder at any time into shares of common stock, at an initial conversion price equal to the lesser of (i) $0.05 per share or (ii) until the eighteen (18) month anniversary of the debenture, the lowest price paid per share or the lowest conversion price per share in a subsequent sale of the Company's equity and/or convertible debt securities paid by investors after the date of the debenture.

On February 4, 2010 the Company amended the terms of the securities purchase agreement and agreed to issue an additional $200,000 of its 6% convertible debentures for an aggregate purchase price of $200,000. The debenture bears interest at 6% per annum and matures twenty-four months from the date of issuance. The debenture is convertible at the option of the holder at any time into shares of common stock, at an initial conversion price equal to the lesser of (i) $0.05 per share or (ii) until the eighteen (18) month anniversary of the debenture, the lowest price paid per share or the lowest conversion price per share in a subsequent sale of the Company's equity and/or convertible debt securities paid by investors after the date of the debenture. In connection with the agreement, the investor received a warrant to purchase 4,000,000 shares of the Company's common stock. The warrant is exercisable for a period of five years from the date of issuance at an initial exercise price of $0.05, subject to adjustment in certain circumstances. The Investor may exercise the warrant on a cashless basis if the fair market value (as defined in the warrant) of one share of common stock is greater than the Initial Exercise Price. In accordance with ASC 470-20-25, the convertible debentures were considered to have an embedded beneficial conversion feature because the effective conversion price was less than the fair value of the Company's common stock.

These convertible debentures were fully convertible at the issuance date thus amounts allocated to the beneficial conversion feature and the warrants were treated as discounts on the 6% senior convertible debentures and were valued at $200,000 to be amortized over the debenture term. The fair value of the warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 219%; risk-free interest rate of 2.29% and an expected holding period of five years. The Company paid a legal fee of $12,500 in connection with this debenture.

Accordingly, the Company recorded debt issuance costs of $12,500 which were amortized over the term of the debenture. For the six months ended June 30, 2013 and 2012, amortization of debt issuance costs amounted to $0 and $517, respectively, and is included in interest expense. As a result of the Merger with EClips Media and further stock split on March 16, 2010, the new conversion price of this debenture is equivalent to $0.025 and the warrants increased to 8,000,000 shares of the Company's common stock.

On February 4, 2010, the Company had amended the 6% senior convertible debentures agreement dated December 17, 2009 with a principal amount of $75,000. Pursuant to the terms of the original agreement, the investor was granted the right to receive the benefit of any more favorable terms or provisions provided to subsequent investors for a period of 18 months following the closing of the transaction. As a result of the issuance of the $200,000 note payable above, the investor was issued a debenture in the aggregate principal amount of $75,000 and received a warrant to purchase 1,500,000 shares of the Company's common stock on the same terms and conditions as previously described. The original debenture was cancelled. These warrants were treated as an additional discount on the 6% senior convertible debentures amounting to $7,610 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 219%; risk-free interest rate of 2.29% and an expected holding period of five years. As a result of the Merger with EClips Media on March 16, 2010, the new conversion price of this debenture was equivalent to $0.025 and the warrants increased to 3,000,000 shares of the Company's common stock.

During 2010, in a private equity transaction, a shareholder of the Company transferred 3,000,000 shares of the Company's common stock he owned to the holder of this senior convertible debentures amounting to $75,000. As a result of this private equity transaction and pursuant to a release notice agreement, the Company was released from this senior convertible debenture. During fiscal 2010, the Company cancelled such debenture and recognized capital contribution of $75,000 to additional paid in capital.

Between March 2010 and June 2010, the Company entered into securities purchase agreements with accredited investors pursuant to which the Company agreed to issue an aggregate of $750,000 of its 6% senior convertible debentures with the same terms and conditions of the debentures issued on February 4, 2010. In connection with the Agreement, the Investors received warrants to purchase 30,000,000 shares of the Company's common stock. The warrants are exercisable for a period of five years from the date of issuance at an initial exercise price of $0.025, subject to adjustment in certain circumstances. In accordance with ASC 470-20-25, the convertible debentures were considered to have a beneficial conversion feature because the effective conversion price was less than the fair value of the Company's common stock. These convertible debentures were fully convertible at the issuance date thus amounts allocated to the beneficial conversion feature and the warrants were treated as a discount on the 6% senior convertible debentures of $750,000 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 211%; risk-free interest rate of 2.43% and an expected holding period of five years.

In January 2011, two note holders (the "Assignors") of the Company's 6% convertible debentures entered into an Assignment agreement with an unrelated party (the "Assignee") whereby the Assignors assigned a total principal amount of $250,000 of the convertible debentures (the "Assigned Debenture") and warrants to purchase 5,000,000 shares of common stock (the "Assigned Warrants") (the Assigned Debenture and the Assigned Warrants collectively, the "Assigned Securities"). The Assignee purchased the Assigned Securities for $300,000. Contemporaneously with the closing of this agreement, the Assignee converted the Assigned Debenture into shares of the Company's common stock and exercised the Assigned Warrants for total net proceeds of $125,000 to the Company. The Company issued 10,000,000 shares in connection with the conversion of the Assigned Debenture and 5,000,000 shares in connection with the exercise of the Assigned Warrants.

In April 2011, a note holder (the "Assignor") of the Company's 6% convertible debentures entered into an Assignment agreement with two unrelated parties (the "Assignees") whereby the Assignor assigned a total principal amount of $125,000 of the convertible debentures (the "Assigned Debenture"). The Assignees purchased the Assigned Debenture for $125,000. Contemporaneously with the closing of this agreement, the Assignees converted the Assigned Debenture into shares of the Company's common stock. The Company issued 5,000,000 shares in connection with the

conversion of the Assigned Debenture.

Between January 2011 and June 2011, BIG has paid approximately $95,000 in connection with the spinoff agreement entered into during fiscal 2010 and such amount reduced the principal balance of the outstanding convertible debentures held by the Company's debenture holders and recognized capital contribution of $95,000 to additional paid in capital.

In December 2011, the note holders of the Company's 6% convertible debentures converted a total principal amount of $325,000 of the convertible debentures into common stock. The Company issued 13,000,000 shares in connection with the conversion of these convertible debentures.

On February 7, 2012, the note holders of the Company's 6% convertible debentures converted a total principal amount of $55,000 of the convertible debentures into common stock. The Company issued 2,200,000 shares in connection with the conversion of these convertible debentures.

On May 9, 2012, the Company entered into securities purchase agreement with an accredited investor pursuant to which the Company agreed to issue $37,500 of its 6% convertible debentures for an aggregate purchase price of $37,500. The debenture bears interest at 6% per annum and matures twenty-four months from the date of issuance. The debenture is convertible at the option of the holder at any time into shares of common stock, at an initial conversion price equal to the lesser of (i) $0.05 per share or (ii) until the eighteen (18) month anniversary of the debenture, the lowest price paid per share or the lowest conversion price per share in a subsequent sale of the Company's equity and/or convertible debt securities paid by investors after the date of the debenture. In connection with the agreement, the investor received a warrant to purchase 750,000 shares of the Company's common stock. The warrant is exercisable for a period of five years from the date of issuance at an initial exercise price of $0.05, subject to adjustment in certain circumstances. The investor may exercise the warrant on a cashless basis if the fair market value (as defined in the warrant) of one share of common stock is greater than the initial exercise price.

In accordance with ASC 470-20-25, the convertible debentures were considered to have an embedded beneficial conversion feature because the effective conversion price was less than the fair value of the Company's common stock. In accordance with ASC 470-20-25, the convertible debentures were considered to have an embedded beneficial conversion feature because the effective conversion price was less than the fair value of the Company's common stock. These convertible debentures were fully convertible at the issuance date thus the value of the beneficial conversion and the warrants were treated as a discount on the 6% convertible debentures and were valued at $37,500 to be amortized over the debenture term. The fair value of this warrant was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions: expected dividend yield of 0%; expected volatility of 241%; risk-free interest rate of 0.77% and an expected holding period of five years.

In accordance with ASC Topic 815 "Derivatives and Hedging", the convertible debentures above included a down-round provision under which the conversion price could be affected by future equity offerings. Instruments with down-round protection are not considered indexed to a company's own stock under ASC Topic 815, because neither the occurrence of a sale of common stock by the company at market nor the issuance of another equity-linked instrument with a lower strike price is an input to the fair value of a fixed-for-fixed option on equity shares. During fiscal year 2011, the down-round provisions for convertible debentures and warrants that were issued during fiscal 2010 were terminated after 18 months from such issuance pursuant to the Debenture agreement and thus no longer considered derivatives. However, the down-round provisions for convertible debentures and warrants that were issued in May 2012 are considered derivatives as of June 30, 2013 (see Note 8).

Convertible Notes Payable

On February 29, 2012, the Company entered into note purchase agreements with certain investors whereby it sold an aggregate of $105,882 of convertible promissory notes at an aggregate purchase price of $90,000. These investors include Daniel Bleak and several of the Company's existing shareholders. The notes matured on February 28, 2013. The Company acknowledges and agrees that this note was issued at an original issue discount. No regularly scheduled interest payments shall be paid on this note. The note is past due and due on demand.

The face value of each note may be converted at the holder's option, in whole or in part, at any time at least three months following the date of issuance into shares of the Company's common stock at a conversion price of $0.05 per share, shall be subject to adjustment in the case of stock splits, reclassifications, reorganizations, and mergers or consolidations upon issuances at less than the conversion price. Further, at any time prior to the maturity date or conversion as set forth in the prior sentence, the face value of each Note shall be exchanged into the applicable dollar amount of equity securities issued by the Company in a subsequent financing of at least $1,000,000 at a conversion price of $0.05 per share of the Company's common stock. Until such time that the notes are no longer outstanding, without the consent of the holders, the Company is prohibited from incurring certain debt, selling any accounts

receivable or declaring any dividend. The Company concluded that since these notes do not include a down-round provision under which the conversion price could be affected by future equity offerings, the embedded conversion feature was not considered a derivative.

The Company recorded a debt discount of $15,882 which represents the difference between the principal amount of $105,882 over the proceeds received or $90,000. Additionally, in accordance with ASC 470-20-25, the notes were considered to have an beneficial conversion feature because the effective conversion price was less than the fair value of the Company's common stock. These notes were fully convertible at the issuance date thus the value of the beneficial conversion were treated as a discount and were valued at $90,000. The total debt discount of $105,882 shall be amortized over the term of the notes.

At June 30, 2013 and December 31, 2012, convertible debentures and notes payable consisted of the following: