

Minerco Resources, Inc.
Form 10-Q
June 20, 2012

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

FORM 10-Q

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

For the quarterly period ended April 30, 2012

or

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

For the transition period from _____ To _____

Commission file number: 333-156059

Minerco Resources, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

27-2636716
(I.R.S. Employer Identification No.)

22503 Katy Highway, #18
Katy, Texas 77450
(Address of principal executive offices)

(281) 994-4187
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 (of for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: Minerco Resources, Inc. - Form 10-Q

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	<input type="radio"/>	Non-accelerated filer	<input type="radio"/>
Accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

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

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 No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of June 19, 2012 the registrant had 79,359,509 outstanding shares of its common stock.

Table of Contents

PART I – FINANCIAL INFORMATION

Item		
1.	Financial Statements	3
Item		
2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item		
3.	Quantitative and Qualitative Disclosures About Market Risk	24
Item		
4.	Controls and Procedures	24

PART II – OTHER INFORMATION

Item		
1.	Legal Proceedings	25
Item		
2.	Unregistered Sales of Equity Securities	25
Item		
3.	Defaults Upon Senior Securities	27
Item		
4.	Removed and Reserved	27
Item		
5.	Other Information	27
Item		
6.	Exhibits	28

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The unaudited interim financial statements of Minerco Resources, Inc. follow. All currency references in this report are to U.S. dollars unless otherwise noted.

	Index
Consolidated Balance Sheets (unaudited)	4
Consolidated Statements of Expenses (unaudited)	5
Consolidated Statements of Cash Flows (unaudited)	6
Consolidated Notes to the Unaudited Financial Statements	7

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Balance Sheets
(unaudited)

	April 30, 2012	July 31, 2011
ASSETS		
Cash	\$ -	\$ 150
Prepaid Expense	-	1,816
Current Assets	-	1,966
Other Assets		
Intangible asset - Chiligatoro rights	715,500	715,500
Total Assets	\$ 715,500	\$ 717,466
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 89,419	\$ 66,316
Accounts Payable – Related Party	505,589	248,687
Convertible Note Payable (net of discount \$46,079)	266,431	261,659
Derivative Liability	1,411,656	191,216
Total Liabilities	2,273,095	767,878
Stockholders' Deficit		
Common stock, \$0.001 par value, 1,175,000,000 shares authorized, 69,492,863 and 3,025,349 outstanding at April 30, 2012 and July 31, 2011, respectively	69,493	3,025
Preferred stock, \$0.001 par value, 25,000,000 shares authorized, 15,000,000 and 10,000,000 outstanding at April 30, 2012 and July 31, 2011, respectively	10,000	10,000
Additional paid-in capital	2,720,677	1,252,535
Deficit accumulated during the development stage	(4,357,765)	(1,315,972)
Total Stockholders' Deficit	(1,557,595)	(50,412)
Total Liabilities and Stockholders' Deficit	\$ 715,000	\$ 717,466

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

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Statements of Expenses
(unaudited)

	Three Months Ended April 30, 2012	Three Months Ended April 30, 2011	Nine Months Ended April 30, 2012	Nine Months Ended April 30, 2011	Period from June 21, 2007 (Date of Inception) to April 30, 2012
General and Administrative	\$156,031	\$209,986	\$595,738	\$605,136	\$1,741,293
Chiligatoro Operating Costs	-	-	-	15,500	61,000
Total Expense	156,031	209,986	595,738	620,636	1,802,293
Impairment of Note Receivable	-	-	-	-	30,000
Loan Recovery	-	-	-	-	(13,000)
Interest Expense	\$2,355	\$1,209	\$8,034	\$1,291	\$11,510
Gain on settlement of debt	-	-	-	(14,935)	(14,935)
Accretion of discount on convertible debt	22,264	19,609	370,548	\$19,609	432,207
(Gain)/Loss on derivative liability	1,544,155	8,199	2,067,473	8,199	2,109,690
Total Other Expenses	1,568,774	29,017	2,446,056	\$14,164	2,555,472
Net Loss	\$(1,724,805)	\$(239,003)	\$(3,041,793)	\$(634,800)	\$(4,357,765)
Net Loss Per Common Share – Basic and Diluted	\$(0.07)	\$(0.09)	\$(0.13)	\$(0.23)	
Weighted Average Common Shares Outstanding	23,784,215	2,537,878	22,677,491	2,752,015	

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

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Statements of Cash Flows
(unaudited)

	Nine Months Ended April 30, 2012	Nine Months Ended April 30, 2011	Period from June 21, 2007 (Date of Inception) To April 30, 2012
Cash Flows from Operating Activities			
Net loss for the period	\$ (3,041,793)	\$ (634,800)	\$ (4,357,765)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain/Loss on settlement of debt	-	(14,935)	(14,935)
Loss on derivative	2,067,474	8,199	2,109,690
Accretion of discount	370,548	19,609	432,207
Share based compensation	173,081	77,240	349,845
Shares issued for services-Third party	38,000	136,000	299,600
Impairment of notes receivable	-	-	30,000
Changes in operating assets and liabilities:			
Prepaid expense	1,816	(11)	-
Accounts payable and accrued liabilities	71,322	55,180	137,638
Accounts payable- related party	260,307	106,351	474,506
Net Cash Used in Operating Activities	(59,245)	(247,167)	(539,214)
Cash Flows from Investing Activities			
Loan to third party	-	-	(10,000)
Net Cash Used in Investing Activities	-	-	(10,000)
Cash Flows from Financing Activities			
Capital contribution	-	-	1,182
Proceeds from issuance of common stock	-	-	90,514
Proceeds from loan	62,500	180,500	411,500
Proceeds from related party debt	-	46,211	49,423
Repayment of related party debt	(3,405)	-	(3,405)
Net Cash Provided by Financing Activities	59,095	226,711	549,214
Net change in cash	(150)	(20,456)	-

Cash, Beginning of Period		150	20,916	-
Cash, End of Period	\$	-	\$ 460	\$ -
Supplemental disclosures of cash flow information				
Cash paid for interest		-	82	-
Cash paid for income taxes		-	-	-
Non cash investing and financing activities:				
Debt discount	\$	307,022	80,500	\$ 456,022
Settlement of accounts payable in exchange of notes payable	\$	45,000		\$ 45,000
Shares issued upon conversion note payable	\$	147,210		\$ 147,210
Derivative liability re-classed to equity upon conversion of notes payable to common shares	\$	1,176,319		\$ 1,176,319
Conversion of preferred stock to common stock	\$	50,000		\$ 50,000
Common stock issued for Chiligatoro rights	\$	-	\$ -	\$ 715,500
Common stock issued for note receivable	\$	-	\$ -	\$ 20,000

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

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements of Minerco Resources, Inc. (“Minerco” or the “Company”), have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission (the “SEC”), and should be read in conjunction with the audited financial statements and notes thereto contained in Minerco’s Annual Report filed with the SEC on Form 10-K. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Consolidated Notes to the Financial Statements which substantially duplicate the disclosure contained in the audited financial statements for fiscal 2011 as reported in Minerco’s Form 10-K have been omitted.

2. Going Concern

These financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. During the period ended April 30, 2012, the Company has an accumulated deficit and no revenue. The Company is in the business of developing, producing and providing clean, renewable energy solutions in Central America. The Company participates in and invests in development projects with other companies in clean, renewable energy projects. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, and the attainment of profitable operations. These factors raise substantial doubt regarding the Company’s ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company intends to fund operations through equity and debt financing arrangements, which may be insufficient to fund its capital expenditures, working capital and other cash requirements for the year ending July 31, 2012.

3. Fair Value of Financial Instruments

ASC 820, “Fair Value Measurements”, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

3. Fair Value of Financial Instruments (continued)

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash, accounts payable and accrued liabilities, and due to related party. Pursuant to ASC 820, the fair value of our cash equivalents is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

The following table sets forth by level with the fair value hierarchy the Company's financial assets and liabilities measured at fair value on April 30, 2012.

	Level 1	Level 2	Level 3	Total
Assets	-	-	-	-
Chiligatoro Rights	\$ -	\$ -	\$ 715,500	\$ 715,500
Liabilities	-	-	-	-
Derivative Financial Instruments	\$ -	\$ -	\$ 1,411,656	\$ 1,411,656

The following table sets forth by level with the fair value hierarchy the Company's financial assets and liabilities measured at fair value on July 31, 2011.

	Level 1	Level 2	Level 3	Total
Assets	-	-	-	-
Chiligatoro Rights	\$ -	\$ -	\$ 715,500	\$ 715,500
Liabilities	-	-	-	-
Derivative Financial Instruments	\$ -	\$ -	\$ 191,216	\$ 191,216

4. Common Stock

On December 16, 2010, the Company entered into an employment contract with its Chief Financial Officer for 30,000,000 common shares valued at \$255,000 amortized over the term of the agreement, 5.5 years. As of April 30, 2012, the Company recognized \$38,264 in compensation expense and \$184,896 is unamortized as of April 30, 2012.

On August 8, 2011, the Company issued 47,059 common shares at a conversion rate of \$0.255 for the conversion of \$12,000 of debt pursuant to a convertible promissory note dated February 3, 2011.

On August 28, 2011, the Company entered into a consulting agreement with SE Media for two months with an option to extend for an additional one month. SE Media will be issued 266,667 shares at \$0.255 of Minerco Resources, Inc for a total compensation expense of \$38,000.

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

4. Common Stock (continued)

On August 28, 2011, the Company issued 266,667 common shares to our Chief Financial Officer pursuant to an amendment to his employment agreement for a total expense of \$76,000 which will be amortized using the straight line method over the remainder of the 5 year contract. The expense recognized as of April 30, 2012 is \$11,950 and \$64,050 is unamortized as of April 30, 2012.

On September 1, 2011, the Company issued 880,000 common shares at a conversion rate of \$0.06 for the conversion of \$52,800 of debt pursuant to a convertible promissory note dated September 1, 2011.

On September 2, 2011, the Company issued 133,334 common shares at a conversion rate of \$0.075 for the conversion of \$10,000 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On September 12, 2011, the Company issued 80,000 common shares at a conversion rate of \$0.075 for the conversion of \$6,000 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On September 16, 2011, the Company issued 133,334 common shares at a conversion rate of \$0.06 for the conversion of \$8,000 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On October 10, 2011, the Company issued 100,000 common shares at a conversion rate of \$0.045 for the conversion of \$4,500 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On October 24, 2011, the Company issued 200,000 common shares at a conversion rate of \$0.03 for the conversion of \$6,000 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On October 31 2011, the Company issued 200,000 common shares at a conversion rate of \$0.03 for the conversion of \$6,000 of debt pursuant to a convertible promissory note to dated February 3, 2011.

On November 9, 2011, the Company issued 97,038 common shares at a conversion rate of \$0.027 for the conversion of \$500 of debt pursuant to a convertible promissory note to dated February 3, 2011 along with accrued interest of \$2,120.

On November 15, 2011, the Company issued 238,096 common shares at a conversion rate of \$0.021 for the conversion of \$5,000 of debt pursuant to a convertible promissory note to dated March 29, 2011.

On November 21, 2011, the Company issued 222,223 common shares at a conversion rate of \$0.018 for the conversion of \$4,000 of debt pursuant to a convertible promissory note to dated March 29, 2011.

On December 6, 2011, the Company issued 222,223 common shares at a conversion rate of \$0.009 for the conversion of \$2,000 pursuant to a convertible promissory note to dated March 29, 2011.

On December 28, 2011, the Company issued 283,334 common shares at a conversion rate of \$0.006 for the conversion of \$1,700 pursuant to a convertible promissory note to dated March 29, 2011.

Edgar Filing: Minerco Resources, Inc. - Form 10-Q

On January 17, 2012, the Company issued 283,334 common shares at a conversion rate of \$0.006 for the conversion of \$1,700 pursuant to a convertible promissory note to dated March 29, 2011.

On February 3, 2012, the Company issued 283,333 common shares at a conversion rate of \$0.006 for the conversion of \$1,700 of debt pursuant to a convertible promissory note dated March 29, 2011.

On February 15, 2012, the Company issued 10,690,000 common shares at a conversion rate of \$0.001 for the conversion of \$10,690 of debt pursuant to a convertible promissory note dated June 6, 2011.

On February 15, 2012, the Chief Executive Officer converted 2,500,000 shares of Class A Preferred Convertible Stock to 25,000,000 shares of common stock.

On February 15, 2012, the Chief Financial Officer converted 2,500,000 shares of Class A Preferred Convertible Stock to 25,000,000 shares of common stock.

On March 9, 2012, the Company issued 1,774,193 common shares at a conversion rate of \$0.0062 for the conversion of \$11,000 pursuant to a convertible promissory note to dated March 29, 2011.

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

5. Preferred Stock

The preferred stock may be divided into and issued in series. The Board of Directors of the Company is authorized to divide the authorized shares of preferred stock into one or more series, each of which shall be so designated as to distinguish the shares thereof from the shares of all other series and classes.

On January 11, 2011, the Company designated 5,000,000 shares of its preferred stock as Class A Convertible Preferred Stock ("Class A Stock"). Each share of Class A Stock is convertible into 10 shares of common stock, has 100 votes, has no dividend rights except as may be declared by the Board of Directors, and has a liquidation preference of \$1.00 per share.

On January 11, 2011, the Company issued 10,000,000 preferred shares to its Chief Executive Officer valued at \$720,000. As of April 30, 2012 \$108,030 was recorded as stock compensation expense and \$532,320 is unamortized as of April 30, 2012.

On August 28, 2011, the Company issued 5,000,000 shares of its Class A Convertible Preferred stock to its Chief Financial Officer pursuant to an amendment to his employment agreement. The compensation expense for the stock grant will be amortized evenly over the remainder of the 5 year employment agreement based on the closing stock price of the Company's common stock on the date of the grant (\$0.0019). Total expense to be recognized over the 5 year term is \$95,000, whereby Company recognized \$14,936 as of April 30, 2012 and \$80,064 is unamortized as of April 30, 2012. If Mr. Messina voluntarily terminates his employment with us or if a petition for Chapter 7 bankruptcy is filed by us resulting in an adjudication of bankruptcy within 12 months of the date of the agreement, all shares granted will be cancelled. If Mr. Messina voluntarily terminates his employment with us or if a petition for Chapter 7 bankruptcy is filed by the Company resulting in an adjudication of bankruptcy after twelve months and before 24 months of the date of the agreement, 3,000,000 shares granted to him will be returned. If Mr. Messina voluntarily terminates his employment with us or if a petition for Chapter 7 bankruptcy is filed by us resulting in an adjudication of bankruptcy after twenty four months and before 36 months of the date of the agreement, 2,000,000 shares granted to him will be returned. If Mr. Messina voluntarily terminates his employment with us or if a petition for Chapter 7 bankruptcy is filed by us resulting in an adjudication of bankruptcy after thirty six months and before 48 months of the date of the agreement, 1,000,000 shares granted to him will be returned.

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

6. Related Parties

As of April 30, 2012, the Company was indebted to the current Chief Executive Officer for \$254,390 (\$127,674 at July 31, 2011) relating to accrued salary and \$15,797 for the expenses paid on behalf of the Company. The Company is also indebted to the current Chief Financial Officer for \$214,016 (\$83,515 at July 31, 2011) relating to accrued salary and \$16,387 for the expenses paid on behalf of the Company for a total of \$505,589.

7. Convertible Note Payable

As of April 30, 2012, the Company was indebted to an unrelated third party for \$147,200, for monies loaned to the Company. On October 12, 2010, the Company granted a promissory note to this party in the amount of \$200,000 in consideration for monies loaned to the Company. The promissory note is non-interest bearing and due on demand. On September 1, 2011, the Company entered into two agreements, each of which provide for the exchange of the two promissory notes dated October 12, 2010 in the principal amount of \$100,000 for convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$100,000. Each Convertible Note plus accrued interest of 0% may be converted into shares of common stock of the Company at any time before the maturity date by the Convertible Note holder at a conversion price of \$0.0004 per share at the time of conversion. In the event of a default by the Company, each Convertible Note plus accrued interest may be converted into shares of common stock of the Company at any time after the default date by the Convertible Note holder at a conversion price of the lower of (i) par value or (ii) half of the average bid price over the five trading days prior to the conversion date, but in no case for an amount less than a 51% interest in the Company.

The Company is obligated to register the shares underlying the Convertible Notes under the Securities Act of 1933 until shares become available for resale under Rule 144(k). On September 1, 2011, a note holder converted \$52,800 of principal into 880,000 shares of the Company.

8. Derivative Liabilities

On February 3, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$53,000. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 31% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The Promissory Note was due on November 7, 2011. On August 8, 2011, the Company and Asher Enterprises entered into an amendment whereas the note converts at a variable conversion price of 31% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before the conversion.

On March 29, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$27,500. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 31% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The Promissory Note was due on December 29, 2011. On September 27, 2011, the Company and Asher Enterprises entered into an amendment whereas the note converts at a variable conversion price of 31% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before the conversion.

On June 6, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and SE Media Partners, Inc. for \$36,000. The convertible note carries a 5% rate of interest and is convertible into common stock at a variable conversion price of 50% of the market price which shall be calculated as the lowest day during the preceding 5 days before conversion. The Promissory Note was due on December 6, 2011.

On June 22, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$32,500. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 55% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The Promissory Note was due on March 26, 2012.

On August 6, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and SE Media Partners, Inc. for \$18,000. The convertible note carries an 5% rate of interest and is convertible into common stock at a variable conversion price of 50% of the market price which shall be calculated as the lowest day during the preceding 5 days before conversion. The Promissory Note was due on February 6, 2012.

On August 8, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$27,500. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 55% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The Promissory Note was due on May 11, 2012.

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

8. Convertible note payable and derivative liabilities (continued)

On September 27, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$35,000. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 51% of the market price which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The Promissory Note is due on June 29, 2012.

On November 6, 2011, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and SE Media Partners, Inc. for \$27,000. The convertible note carries an 5% rate of interest and is convertible into common stock at a variable conversion price of 50% of the market price which shall be calculated as the lowest day during the preceding 5 days before conversion. The Promissory Note is due on May 6, 2012.

Due to there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options embedded in the Convertible Promissory Notes, the options are classified as derivative liabilities and recorded at fair value.

A summary of changes in Convertible Promissory Notes payable for the period ended April 30, 2012 is as follows:

Beginning balance	\$ 261,659
Gross proceeds from the notes payable	62,500
Accounts payable re-classified to note payable	45,000
Less: debt discount from conversion options	(307,022)
Less: Conversion of notes payable	(143,990)
Add: amortization of discount	348,284
Total notes payable	\$ 266,431

Derivative Liability:

The fair values of the instruments were determined to be \$383,067 using a Black-Scholes option-pricing model. Upon the issuance dates of the new Convertible Promissory Notes, \$280,022 was recorded as debt discount and \$616,027 was recorded as day one loss on derivative liability. During the three months April 30, 2012, the Company recorded a net loss on mark-to-market of the conversion options of \$1,566,419.

The following table summarizes the derivative liabilities included in the consolidated balance sheet at April 30, 2012:

Beginning Balance	\$ 191,216
New issuance derivative value accounted for as debt discount	307,022
Write off of Discount	22,083
Day one loss on excess of fair value over proceeds received	630,281
Derivative re-classified to equity upon conversion of notes payable to common stock	(1,176,139)

Edgar Filing: Minerco Resources, Inc. - Form 10-Q

April 30, 2012 loss on change in fair value	1,437,193
Balance at April 30, 2012	\$ 1,411,656

The following table summarizes the derivative liabilities included in the consolidated statement of expenses at April 30, 2012:

Day one loss on fair value	\$ 630,281
April 30, 2012 loss on change in fair value	1,437,193
Total loss on derivative as of April 30, 2012	\$ 2,067,474

Minerco Resources, Inc.
(A Development Stage Company)
Consolidated Notes to the Financial Statements
(unaudited)

8. Convertible note payable and derivative liabilities (continued)

The valuation of the above derivative instruments are determined primarily using the Black-Scholes option pricing model. To determine the fair value of the derivatives, Minerco evaluates assumptions regarding the probability of certain future events. The fair values of the derivatives as of April 30, 2012 were estimated using the Black-Scholes model with the following assumptions: \$0.0082 quoted stock price; \$0.001 to \$0.006 conversion price; 93.40% to 912.57% volatility; less than 1 year estimated life; zero dividends and a 0.04% to 0.07% discount rate.

9. Commitments

Employment Agreements

On August 28, 2011, the Company amended an exclusive employment agreement with Sam J Messina III to serve as our Chief Financial Officer, Secretary and Treasurer. Mr. Messina is paid a salary of \$150,000 per annum as of August 28, 2011. If revenues exceed \$10 million, then Mr. Messina's salary will be increased to \$300,000 per annum. If revenues exceed \$20 million, then Mr. Messina's salary will be increased to \$450,000 per annum. Mr. Messina was issued 466,667 shares of common stock and 5,000,000 share of Class A Convertible Preferred Stock, upon the effective date of the agreement.

10. Subsequent Events

- a) On May 10, 2012, the Company issued 3,333,333 common shares at a conversion rate of \$0.0039 for the conversion of \$13,000 of debt pursuant to a convertible promissory note dated June 22, 2011.
- b) On May 16, 2012, the Company issued 3,200,000 common shares at a conversion rate of \$0.0025 for the conversion of \$8,000 of debt pursuant to a convertible promissory note dated June 22, 2011.
- c) On May 30, 2012, the Company issued 3,333,333 common shares at a conversion rate of \$0.0015 for the conversion of \$5,000 of debt pursuant to a convertible promissory note dated June 22, 2011.
- d) On June 14, 2012, the Company and Asher Enterprises entered into an amendment of the June 22, 2011 convertible promissory note for \$32,500 whereas the note converts at a variable conversion price of 35% of the market price which shall be calculated as the lowest market price during the 120 day period prior to the conversion date.
- e) On June 14, 2012, the Company and Asher Enterprises entered into an amendment of the August 8, 2011 convertible promissory note for \$27,500 whereas the note converts at a variable conversion price of 35% of the market price which shall be calculated as the lowest market price during the 120 day period prior to the conversion date.
- f) On June 14, 2012, the Company and Asher Enterprises entered into an amendment of the September 27, 2011 convertible promissory note for \$35,000 whereas the note converts at a variable conversion price of 35% of the market price which shall be calculated as the lowest market

price during the 120 day period prior to the conversion date.

- g) On June 18, 2012, the Company entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and Asher Enterprises for \$11,500. The convertible note carries an 8% rate of interest and is convertible into common stock at a variable conversion price of 35% of the market price which shall be calculated as the average of the lowest market price during 120 day period prior to the conversion date. The Promissory Note is due on March 20, 2013.

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

Forward Looking Statements

This quarterly report on Form 10-Q for the quarter ended April 30, 2012 contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology including “could”, “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential” and the negative of these terms or other comparable terminology. The statements are only predictions. Actual events or results may differ materially.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report.

Business Overview

We were incorporated as a Nevada company on June 21, 2007 and we have one subsidiary Minerco Honduras. We were engaged in the acquisition of interests and leases in oil and natural gas properties from our inception in June 2007 until May 27, 2010. In May, 2010 we changed the focus of our business to the development, production and provision of clean, renewable energy solutions in Central America. We currently have an interest in two Hydro-Electric Projects and one Wind Project in various parts of Honduras. Both of our Hydro-Electric projects are classified as run-of-the-river projects (not conventional retention dams). Our Chiligatoro Hydro-Electric Project is in the final permitting stage of development and our Iscan Hydro-Electric Project is currently in the early feasibility stage of development. Our wind project is also in the early feasibility stage of development. To date, we have not completed construction of any of the projects and we have not received any revenue from any of the projects. There can be no assurance given that these projects will be completed in a timely manner, if at all. We will require additional funds to complete these projects, estimated at \$200,000,000 in the aggregate. The feasibility stage of development is the stage of development where the preliminary permits are obtained, measurement of the water flow for hydro-electric projects or wind and weather patterns for wind projects are observed, and final project size are determined. See Managements' Discussion and Analysis. Additionally, if the projects are completed, there is no guarantee that they will be successfully used to create electricity or that they will generate a consistent revenue stream for us.

Our common stock is quoted on the OTCQB under the symbol “MINE”. On March 30, 2010, the Company effected a 6 for 1 forward stock split, increasing the issued and outstanding shares of common stock from 55,257,500 to 331,545,000 shares. On February 13, 2012, the Company effected a 150 for 1 reverse stock split, increasing the issued and outstanding share of common stock from 1,054,297,534 to 7,028,670 shares. All share amounts through this annual report have been retroactively adjusted for all periods to reflect this stock split.

The Projects

Chiligatoro

On May 27, 2010, we acquired 100% of the 6 mega-watt per hour (MWh) Chiligatoro Hydro-Electric Project (“Chiligatoro”) in Intibuca, Honduras. This project is classified as a run-of-the-river project (not a conventional retention dam) and is currently in the feasibility stage of development. Acquisition in this phase of development allows us to have full control of the final design and construction of this project. To date, the construction of Chiligatoro has not

started, and we have not received any revenues from the project. There is no assurance that Chiligatoro will be completed in a timely manner, if at all. Additionally, if Chiligatoro is completed, there is no guarantee that it will be successfully used to create electricity or that it will generate a consistent revenue stream for us.

Chiligatoro has received approval from the National Energy Commission, signed a 30 Year Operations Contract with SERNA and is currently negotiating its Power Purchase Agreement (PPA) with ENEE. Chiligatoro is awaiting final approval from the Honduran National Congress. This Congressional Approval acts as a “defacto” guarantee. This approval makes Chiligatoro’s Power Purchase Contracts a recorded law in the Honduran National Congress. Final approval and start of construction is anticipated by the end of 2012.

The revenue for Chiligatoro (or any hydro or wind project) is expected to be generated from the following; however there can be no guarantee that such anticipated revenue level or any revenue at all will be generated:

Power Generation Sales

Chiligatoro Example: $6 \text{ MWh} \times 24 \text{ hr/day} \times \$115.97 / \text{MWh} = \text{US\$ } 16,700 / \text{day}$ or $\text{US\$ } 6,095,000$ per year of Gross Energy Generation Revenue

Carbon Credits

Carbon Emission Reduction (CER) Credits can be pre-sold or traded on the open market. The spot price is currently over US\$ 10 per Credit. Carbon Credits are relatively new but are measured in tonnes of CO₂.

The Chiligatoro Project is expected eliminate approximately 27,000 tonnes of CO₂.per year, or earn 27,000 CER Credits annually. $27,000 \text{ CER /year} \times \$10 / \text{CER} = \text{US\$ } 270,000$ per year.

Reforestation in Project Buffer Zone

Reforestation generates revenue directly and indirectly. Planting tropical hardwood trees such as mahogany is expected to generate direct revenue in less than 20 years. Current prices yield more than US\$ 8,000 per tree.

More importantly, reforestation of the Project’s Buffer Zone (water supply zone) is expected to increase the Projects total efficiency within a couple years adding additional power generation revenue. This increase in efficiency is typically 2 – 3%. Additional CER Credits are also realized with reforestation.

We acquired the rights to Chiligatoro from ROTA INVERSIONES S.DE R.L., a corporation formed under the laws of Honduras (“Rota”), pursuant to the terms of an acquisition agreement we entered into with Rota on May 27, 2010. We agreed to pay Rota at total of 18,000,000 shares of common stock consisting of 9,000,000 shares of our common stock within 3 days of closing, 4,500,000 shares of our common stock within 180 days of closing and 4,500,000 shares of our common stock upon us raising of \$12,000,000 no later than 24 months after closing. We also agreed to pay Rota a royalty of 10% of the adjusted gross revenue, derived after all applicable taxes, from Chiligatoro prior to completion of the payment of the foregoing. Further, we agreed to pay Rota a royalty of 20% of the adjusted gross revenue, derived after all applicable taxes, from Chiligatoro after the completion of the payout for the life of Chiligatoro, including any renewal, transfer or sale, if any, in perpetuity. “Payout” is defined as all associated costs related to the development of Chiligatoro. If we are unable to obtain the financing requirements of this agreement, Rota will have the right to terminate the agreement with full rights of rescission, and all rights, title and interest to Chiligatoro shall be transferred back to Rota. 13,500,000 shares of common stock were issued to ROTA on June 4, 2010. On May 27, 2012, the company and ROTA INVERSIONES S. DER.L. signed a one year extension to satisfy the financing requirements of this agreement.

Iscan

On January 5, 2011, we acquired 100% of the 4 mega-watt per hour (MWh) Iscan Hydro-Electric Project (“Iscan”) in Olancho, Honduras. This project is classified as a run-of-the-river project (not a conventional retention dam) and is currently in the feasibility stage of development. Acquisition in this phase of development allows us to have full control of the final design and construction of this project. To date, the construction of Iscan has not started, and we have not received any revenues from the project. There is no assurance that Iscan will be completed in a timely manner, if at all. Additionally, if the Iscan project is completed, there is no guarantee that it will be successfully used to create electricity or that it will generate a consistent revenue stream for us.

We acquired the rights to Iscan from Energetica de Occidente S.A. de C.V., a corporation formed under the laws of Honduras (the “Energetica”), pursuant to the terms of an acquisition agreement we entered into with the Iscan Seller on January 5, 2011. We agreed to pay Energetica a total of 1,000,000 shares of common stock consisting of 500,000 shares of our common stock within 30 days of closing and 500,000 shares of our common stock upon us raising \$8,500,000 no later than 36 months after closing. We also agreed to pay the Energetica a royalty of 10% of the adjusted gross revenue, derived after all applicable taxes, from Iscan prior to completion of the payment of the foregoing. If we default on financing obligations under this agreement, Energetica can terminate this agreement, rescind the sale of these rights to us, and all rights, title and interest to Iscan will be transferred back to Energetica. Minerco has not issued any shares because it is awaiting approval from SERNA for the project before the transfer of title and we expect title to be transferred in the middle of the second quarter of calendar 2012.

Caserio Rio Frio

On January 10, 2011, we entered into a binding letter of intent with Sesacepa Energy Company S.A. de CV (“SENCO”), a corporation formed and operated under the laws of Honduras (“SENCO”), for the acquisition of a 30% interest in a Hydro – Electric Project known as “Caserio Rio Frio Hydro – Electric Project” in Honduras in Central America (“Caserio Rio Frio”). The agreement also provides for us to obtain a minimum 30% interest and a maximum 80% interest in the remaining 2 phases of Caserio Rio Frio known as “El Chaguiton and El Palmar.” Actual ownership will be determined at the actual equity placement for the projects. We will pay SENCO \$562,028 over the course of a twelve (12) month period upon execution of a definitive agreement.

Sayab

On January 18, 2011, we acquired 100% of the 100 mega-watt per hour (MWh) Sayab Wind Project (“Sayab”) in Choluteca, Honduras. This project is currently in the feasibility stage of development. Acquisition in this phase of development allows us to have full control of the final design and construction of this project. To date, the construction of Sayab has not started, and we have not received any revenues from the project. There is no assurance that Sayab will be completed in a timely manner, if at all. Additionally, if Sayab is completed, there is no guarantee that it will be successfully used to create electricity or that it will generate a consistent revenue stream for us.

We acquired the rights to Sayab from Energia Renovable Hondurenas S.A., a corporation formed under the laws of Honduras (the “Sayab Seller”), pursuant to the terms of an acquisition agreement we entered into with the Sayab Seller on January 18, 2011. We agreed to pay the Sayab Seller a total of 1,000,000 shares of common stock consisting of 500,000 shares of our common stock within 30 days of closing and 500,000 shares of our common stock upon us raising \$10,000,000 no later than 18 months after closing. We also agreed to pay the Sayab Seller a royalty of 6% of the adjusted gross revenue, derived after all applicable taxes, from Sayab prior to completion of the payment of the foregoing. Further, we agreed to pay the Sayab Seller a royalty of 12% of the adjusted gross revenue, derived after all applicable taxes, from Sayab after the completion of the payout for the life of Sayab, including any renewal, transfer or sale, if any, in perpetuity. “Payout” is defined as all associated costs related to the development of Sayab. As

additional consideration for this Agreement, the Sayab Seller will have the right to, upon written notice delivered to us, to purchase back from us up to an additional 8% of Sayab. The buyback purchase price will be determined by actual costs incurred by us relating to Sayab. The Sayab Seller can buy back or obtain 0.5% increments until a maximum 20% total interest is obtained. If we are unable to obtain the financing requirements of this agreement, the Sayab Seller shall have the right to terminate this agreement with full rights of rescission, and all rights, title and interest to Sayab shall be transferred back to the Sayab Seller. Minerco has not issued any shares because it is awaiting approval from SERNA for the project before the transfer of title and we expect title to be transferred in the middle of the second quarter of calendar 2012.

Rio Sixe

On January 24, 2011, we entered into a binding letter of intent with Sesacepa Energy Company S.A. de CV (“SENCO”), a corporation formed and operated under the laws of Honduras (“the Rio Sixe Seller”) for the acquisition of a minimum 30% interest and a maximum of 80% interest in a Hydro – Electric Project known as “Rio Sixe Hydro – Electric Project” in Honduras in Central America (the “Project”). We will pay the Rio Sixe Seller \$12,800 over the course of a five (5) month period upon execution of a definitive agreement.

Results of Operations

Our results of operations are presented below:

	Nine Months Ended April 30, 2012	Nine Months Ended April 30, 2011	Period from June 21, 2007 (Date of Inception) to April 30, 2012
Loan Recovery	\$ -	\$ -	\$ (13,000)
Impairment of Note Receivable	-	-	30,000
General and Administrative Expenses	595,737	605,136	1,741,293
Chiligatoro Operating Expenses	-	15,500	61,000
Interest Expense	8,034	1,291	11,510
Accretion of discount on convertible debt	370,548	19,609-	432,207
Loss on derivative liability	2,067,474	8,199-	2,109,690
Gain on settlement of debt	-	(14,935)-	(14,935)
Net Loss	\$ 3,041,793	\$ 634,800	\$ 4,357,765
Net Loss per Share –Basic and Diluted	\$ (0.13)	\$ (0.23)	
Weighted Average Shares Outstanding	22,677,491	2,752,015	

Results of Operations for the Nine Months Ended April 30, 2012

During the nine months ended April 30, 2012 we incurred a net loss of \$3,041,793, compared to a net loss of \$634,800 during the same period in fiscal 2011. The increase in our net loss during the nine months ended April 30, 2012 was primarily due to increase in loss on derivative liability and accretion of discount of debt on convertible. There was a loss of \$2,067,474 and accretion of \$370,548 associated with the derivative in the convertible debt.

Our total general and administrative expenses for the nine months ended April 30, 2012 were \$595,737, compared to operating expenses of \$605,136 during the same period in fiscal 2011. Our total general and administrative expenses during the nine months ended April 30, 2012 consisted of \$455,056 in compensation expense, \$41,488 in professional fees, \$38,000 in consulting fees and \$61,193 in general and administrative expense and during the nine months ended April 30, 2012 consisted of general and administrative expenses and Chiligatoro operating expense, and we did not incur any foreign exchange losses, management fees, rent expenses or other operating expenses.

Our general and administrative expenses consist of professional fees, transfer agent fees, investor relations expenses and general office expenses. Our professional fees include legal, accounting and auditing fees.

	Three Months Ended April 30, 2012	Three Months Ended April 30, 2011	Period from June 21, 2007 (Date of Inception) to April 30, 2012
Loan Recovery	\$ -	\$ -	\$ (13,000)
Impairment of Note Receivable	-	-	30,000
General and Administrative Expenses	156,031	209,986	1,741,293
Chiligatoro Operating Expenses	-	-	61,000
Interest Expense	2,355	1,209	11,510
Accretion of discount on convertible debt	22,264	19,609-	432,207
(Gain) / Loss on derivative liability	1,544,155	8,199-	2,109,690
Gain on settlement of debt	-	(14,935)-	(14,935)
Net Loss	\$ 1,724,805	\$ 239,003	\$ 4,357,765
Net Loss per Share –Basic and Diluted	\$ (0.07)	\$ (0.09)	
Weighted Average Shares Outstanding	23,784,215	2,537,878	

Results of Operations for the Three Months Ended April 30, 2012

During the three months ended April 30, 2012 we incurred a net loss of \$1,724,805, compared to a net loss of \$239,003 during the same period in fiscal 2011. The increase in our net loss during the three months ended April 30, 2012 was primarily due to increased stock compensation. Also, there was a loss of \$1,544,155 and accretion of \$22,264 associated with the derivative in the convertible debt.

Our total general and administrative expenses for the three months ended April 30, 2012 were \$156,031, compared to operating expenses of \$209,986 during the same period in fiscal 2011. Our total general and administrative expenses during the three months ended April 30, 2012 consisted of \$147,463 in compensation expense, \$4,908 in professional fees, and \$3,660 in general and administrative expense and during the three months ended April 30, 2012 consisted entirely of general and administrative expenses, and we did not incur any foreign exchange losses, management fees,

rent expenses or other operating expenses.

Our general and administrative expenses consist of professional fees, transfer agent fees, investor relations expenses and general office expenses. Our professional fees include legal, accounting and auditing fees.

18

Results of Operations for the Period from June 21, 2007 (Date of Inception) to April 30, 2012

From our inception on June 21, 2007 to April 30, 2012 we did not generate any revenues and we incurred a net loss of \$4,357,765. We may not generate significant revenues from our interest in our Hydro-Electric or Wind Projects or any other properties in which we acquire an interest, and we anticipate that we will incur substantial losses for the foreseeable future.

Our total operating expenses from our inception on June 21, 2007 to April 30, 2012 were \$1,802,293. Our general and administrative expenses consist of professional fees, transfer agent fees, investor relations expenses and general office expenses. Our professional fees include legal, accounting and auditing fees.

From our inception on June 21, 2007 to April 30, 2012 we also received \$13,000 in the form of proceeds from loan recovery and incurred \$30,000 in expenses related to the impairment of a note receivable. Also, there was a loss of \$2,109,690 and accretion of \$432,207 associated with the derivative in the convertible debt

Liquidity and Capital Resources

As of April 30, 2012 we had \$0 in cash and \$715,500 in total assets, \$2,273,095 in total liabilities and a working capital deficit of \$2,273,095. Our accumulated deficit from our inception on June 21, 2007 to April 30, 2012 was \$4,357,765 and was funded primarily through advances from related parties, equity and debt financing.

From our inception on June 21, 2007 to April 30, 2012 we used net cash of \$539,214 in operating activities. During the nine months ended April 30, 2012 we used net cash of \$59,245 in operating activities, compared to net cash used \$247,167 in operating activities during the same period in fiscal 2011. The decrease in expenditures on operating activities for the nine months ended April 30, 2012 was primarily due to an increased net loss offset by a loss on derivatives, accretion expense, issuance of share based compensation and issuance for services, increase in accounts payable and accounts payable due to related parties.

From our inception on June 21, 2007 to April 30, 2012 we used net cash of \$10,000 on investing activities, all of which was in the form of a loan to a third party. We used net cash of \$0 on investing activities during the nine months ended April 30, 2012 and 2011.

From our inception on June 21, 2007 to April 30, 2012 we received net cash of \$549,214 from financing activities, which consists of \$90,514 from the issuance of our common stock, \$411,500 from debt financing, \$46,018 in proceeds from a related party, and \$1,182 in capital contributions. During the nine months ended April 30, 2012 we received \$59,095 net cash from financing activities, compared to net cash received of \$226,711 during the same period in fiscal 2011. The decrease in receipts from financing activities for the nine months ended April 30, 2012 was primarily lower proceeds from payment from related parties.

We estimate our planned expenses for the next 24 months (beginning December 2011) to be approximately \$13,801,000, as summarized in the table below.

Description	Potential completion date	Estimated Expenses (\$)
Complete Feasibility & Environmental Studies	6 months	1,000,000
Project Permitting	6 months	85,000
Lease/Land Purchase	6 months	500,000
Final Construction Design	6 months	150,000
Engineering & Construction Consultants	6 months	200,000
Mobilization of Equipment	6 months	200,000
Stage 1 Construction	12 months	2,600,000
Stage 2 Construction	18 months	2,800,000
Stage 3 Construction	24 months	3,700,000
Professional Fees (legal and accounting)	12 months	100,000
Project Supervision	12 months	150,000
Project Socialization	12 months	75,000
General and administrative expenses	12 months	1,150,000
Contingencies (10%)	24 months	1,091,000
Total		13,801,000

Our general and administrative expenses for the year will consist primarily of transfer agent fees, investor relations expenses and general office expenses. The professional fees are related to our regulatory filings throughout the year.

Based on our planned expenditures, we require additional funds of approximately \$13,800,885 (a total of \$13,801,000 less our approximately \$0 in cash as of April 30, 2012) to proceed with our business plan over the next 24 months. If we secure less than the full amount of financing that we require, we will not be able to carry out our complete business plan and we will be forced to proceed with a scaled back business plan based on our available financial resources.

We anticipate that we will incur substantial losses for the foreseeable future. Although we acquired a 100% interest in the various Hydro-Electric and Wind Projects, there is no assurance that we will receive any revenues from this interest. Meanwhile, even if we purchase other non-operated interests in hydro-electric projects or begin construction activities on any properties we may acquire, this does not guarantee that these projects or properties will be commercially exploitable.

Our activities will be directed by V. Scott Messina, our President, Chief Executive Officer and a member of the Board of Directors and Sam J Messina III, our Chief Financial Officer, Secretary, Treasurer and a member of the Board of Directors, who will also manage our operations and supervise our other planned acquisition activities.

Future Financings

Our financial statements for the three and nine months ended April 30, 2012 have been prepared on a going concern basis and there is substantial doubt about our ability to continue as a going concern. We have not generated any revenues, have achieved losses since our inception, and rely upon the sale of our securities to fund our operations. We may not generate any revenues from our interest in the various Hydro-Electric and Wind Projects, or from any of the hydro-electric or wind projects in which we acquire an interest. Accordingly, we are dependent upon obtaining outside financing to carry out our operations and pursue any acquisition and exploration activities.

Of the \$13,801,000 we require for the next 24 months, we had approximately \$0 in cash as of April 30, 2012. We intend to raise the balance of our cash requirements for the next 24 months (approximately \$13,800,885), private placements, shareholder loans or possibly a registered public offering (either self-underwritten or through a broker-dealer). If we are unsuccessful in raising enough money through such efforts, we may review other financing possibilities such as bank loans. At this time we do not have a commitment from any broker-dealer to provide us with financing other than the equity line, and there is no guarantee that any financing will be successful. We intend to negotiate with our management and any consultants we may hire to pay parts of their salaries and fees with stock and stock options instead of cash.

If we are unable to obtain the necessary additional financing, then we plan to reduce the amounts that we spend on our acquisition and exploration activities and our general and administrative expenses so as not to exceed the amount of capital resources that are available to us. Specifically, we anticipate that we will defer drilling programs and certain acquisitions pending the receipt of additional financing. Still, if we do not secure additional financing our current cash reserves and working capital will be not be sufficient to enable us to sustain our operations and for the next 12 months, even if we do decide to scale back our operations.

Product Research and Development

We do not anticipate spending any material amounts in connection with product research and development activities during the next 12 months.

Outstanding Indebtedness

Set forth below is a chart of our outstanding debt obligations as of April 30, 2012:

Bridge Notes Payable				
Name	Amount	Date of Issuance	Maturity Date	Features
Convertible Promissory Note	\$ 25,310	6/6/11	On Demand	5% interest rate converts at the lower of \$0.001 or 50% of market based on the lowest day during the preceding 5 days
Convertible Promissory Note	\$ 32,500	6/22/11	On Demand	8% interest rate converts at a variable conversion price of 55% of the market price calculated based on the average of the lowest 3 days during the preceding 10 days
Convertible Promissory Note	\$ 18,000	8/6/11	On Demand	5% interest rate converts at a variable conversion price of 50% of the market price calculated based on the average of the lowest day during the preceding 5 days
Convertible Promissory Note	\$ 27,500	8/9/11	On Demand	8% interest rate converts at a variable conversion price of 55% of the market price calculated based on the average of the lowest 3 days during the preceding 10 days
Convertible Promissory Note	\$ 73,600	9/1/11	On Demand	0% interest rate converts at the lower of \$0.001 or 50% of market based on the lowest day during the preceding 5 days but in no case less than a 51% interest in the Company
Convertible Promissory Note	\$ 73,600	9/1/11	On Demand	0% interest rate converts at the lower of \$0.001 or 50% of market based on the lowest day during the preceding 5 days but in no case less than a 51% interest in the Company
Convertible Promissory Note	\$ 35,000	9/27/11	6/29/12	8% interest rate converts at a variable conversion price of 51% of the market price calculated based on the average of the lowest 3 days during the preceding 10 days

Edgar Filing: Minerco Resources, Inc. - Form 10-Q

Convertible Promissory Note	\$	27,000	11/6/11	On Demand	5% interest rate converts at a variable conversion price of 50% of the market price calculated based on the average of the lowest day during the preceding 5 days
-----------------------------	----	--------	---------	-----------	---

Outstanding Notes

As of April 30, 2012 our obligations under outstanding notes totaled an aggregate principal amount of \$312,510. Of such amount \$147,200 is due on demand, \$25,310 was due December 6, 2011, \$18,000 was due February 6, 2012, \$32,500 was due March 26, 2012, \$27,000 was due May 6, 2012, \$35,000 is due June 29, 2012, and \$27,500 was due May 11, 2012. We currently do not have sufficient funds to pay any of the past due or future notes.

On October 12, 2010, we issued a promissory note to an unrelated third party in the amount of \$200,000 in consideration for monies loaned to our company. The promissory note is non-interest bearing and due on demand. We currently do not have the funds necessary to repay this debt if a demand were to be made. The promissory note was subsequently sold to two unrelated parties, each acquiring \$100,000 of the principal amount owed under the promissory note. On September 1, 2011, we entered into two agreements, each of which provide for the exchange of the principal amount of \$100,000 of the promissory notes for convertible promissory notes (the "Convertible Notes") in the aggregate principal amount of \$100,000. Each Convertible Note plus accrued interest of 10% may be converted into shares of common stock of the Company at any time before the maturity date by the Convertible Note holder at a conversion price of \$0.0004 per share at the time of conversion. In the event of a default by the Company, each Convertible Note plus accrued interest may be converted into shares of common stock of the Company at any time after the default date by the Convertible Note holder at a conversion price of the lower of (i) par value or (ii) half of the average bid price over the five trading days prior to the conversion date, but in no case for an amount less than a 51% interest in the Company. The Company is obligated to register the shares underlying the Convertible Notes under the Securities Act of 1933 until shares become available for resale under Rule 144(k). On February 20, 2012, we amended the remaining balances on the notes of \$73,600 due on each note to the lower of \$0.001 or 50% of market based on the lowest day during the preceding 5 days.

On each of June 22, 2011, August 9, 2011 and September 27, 2011 we entered into a Securities Purchase Agreement and Convertible Promissory Note with Asher Enterprises for \$32,500, \$27,500 and \$35,000 respectively. The convertible notes carries an 8% rate of interest and the June and August Notes are convertible into common stock at a variable conversion price of 55% of the market price and the September Note is convertible into common stock at a variable conversion price of 51% of which shall be calculated as the average of the lowest 3 days during the preceding 10 days before conversion. The promissory note issued on June 22, 2011 was due on March 26, 2012, the promissory note issued on August 9, 2011 was due on May 11, 2012 and the promissory note issued on September 27, 2011 was due on June 29, 2012.

On June 6, 2011, August 6, 2011 and November 6, 2011, we entered into a Securities Purchase Agreement and Convertible Promissory Note between the Company and SE Media Partners, Inc. for \$36,000, \$18,000 and \$27,000, respectively. The convertible notes carry a 5% rate of interest and are convertible into common stock at a variable conversion price of 50% of the market price which shall be calculated as the lowest day during the preceding 5 days before conversion. The June Convertible Promissory Note was due on December 6, 2011 and has \$25,310 in principal remaining, the August Convertible Promissory Note was due on February 6, 2012 and the November Convertible Promissory Note was due on May 6, 2012. On February 1, 2012, we amended the note dated June 6, 2011 for \$36,000 to the lower of \$0.001 or 50% of market based on the lowest day during the preceding 5 days.

Acquisition of Plants and Equipment and Other Assets

Apart from our interest in the various Hydro-Electric and Wind Projects, we do not anticipate selling or acquiring any material properties, plants or equipment during the next 12 months unless we are successful in obtaining additional financing.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) designed to provide reasonable assurance the information required to be reported in our Exchange Act filings is recorded, processed, summarized and reported within the time periods specified and pursuant to Securities and Exchange Commission rules and forms, including controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management, with the participation of our Principal Executive Officer and Principal Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures. Inasmuch as we only have two individuals serving as officers, directors and employees we have determined that the company has, per se, inadequate controls and procedures over financial reporting due to the lack of segregation of duties despite the fact that the duties of the Chief Executive Officer and Chief Financial Officer are performed by two different individuals. Management recognizes that its controls and procedures would be substantially improved if there was a greater segregation of the duties of Chief Executive Officer and Chief Financial Officer and as such is actively seeking to remediate this issue. Management believes that the material weakness in its controls and procedures referenced did not have an effect on our financial results. Based upon this evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were ineffective.

Changes in Internal Control

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act) during the nine months ended April 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not aware of any legal proceedings to which we are a party or of which our property is the subject.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES

On August 6, 2011 we issued one convertible promissory note in the principal amount of \$18,000 that bears interest at a rate of 5% per annum and converts to common stock at a variable conversion price of 50% of the market price calculated based on the average of the lowest day during the preceding 5 days before conversion. The issuance of the note was exempt from registration under Section 4 (2) of the Securities Act. No underwriter was involved in the offer of sale of the note. The issuance of the note did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the investor had the necessary investment intent as required by Section 4(2) since it agreed to, and received, securities bearing a legend stating that such note are restricted. This restriction ensures that this note will not be immediately redistributed into the market and therefore not part of a public offering.

On August 8, 2011, the Company issued 47,059 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On August 9, 2011 we issued one convertible promissory note in the principal amount of \$27,500 that bears interest at a rate of 8% per annum at a variable conversion price of 55% of the market price calculated based on the average of the lowest 3 days during the preceding 10 days before conversion. The issuance of the note was exempt from registration under Section 4 (2) of the Securities Act. No underwriter was involved in the offer of sale of the note. The issuance of the note did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the investor had the necessary investment intent as required by Section 4(2) since it agreed to, and received, securities bearing a legend stating that such note are restricted. This restriction ensures that this note will not be immediately redistributed into the market and therefore not part of a public offering.

On August 28, 2011, the Company entered into a consulting agreement with SE Media for two months with an option to extend for an additional one month. SE Media was issued 133,334 shares of Minerco Resources, Inc as compensation for a total expense of \$38,000. The issuance of stock was exempt from registration under Section 4 (2). No underwriter was involved in the offer of sale of the shares. The issuance of the securities did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the consultant had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensures that these securities will not be immediately redistributed into the market and therefore not part of a public offering.

On August 28, 2011, the Company issued 266,667 common shares to our Chief Financial Officer pursuant to an amendment to his employment agreement for a total expense of \$76,000 which will be amortized using the straight line method over the remainder of the 5 year contract. The issuance of stock was exempt from registration under Section 4 (2). No underwriter was involved in the offer of sale of the shares. The issuance of the securities did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the consultant had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensures that these securities will not be immediately redistributed into the market and therefore not part of a public offering.

On August 28, 2011, we issued 5,000,000 shares of our Class A Convertible Preferred stock to our Chief Financial Officer pursuant to an amendment to his employment agreement. The issuance of stock was exempt from registration

under Section 4 (2) of the Securities Act. No underwriter was involved in the offer of sale of the shares. The issuance of the securities did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the employee had the necessary investment intent as required by Section 4(2) since they agreed to, and received, securities bearing a legend stating that such securities are restricted. This restriction ensures that these securities will not be immediately redistributed into the market and therefore not part of a public offering

On September 1, 2011 we issued two convertible promissory notes in the principal amount of \$100,000 that bear interest at a rate of 10% per annum and convert at a conversion price of \$.0004 per share in exchange for promissory notes issued in the aggregate principal amount of \$100,000. . We exchanged our securities with existing stockholders and no remuneration or commission was paid in reliance on under Section 3 (a)(9) of the Securities Act.

On September 1, 2011, the Company issued 880,000 common shares pursuant to a convertible promissory note dated September 1, 2011. These shares of common stock were issued in reliance on Section 9 (3) of the Act. We exchanged our securities with existing stockholders and no remuneration or commission was paid in reliance on under Section 3 (a)(9) of the Securities Act.

On September 2, 2011, the Company issued 133,334 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On September 12, 2011, the Company issued 80,000 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On September 16, 2011, the Company issued 133,334 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On September 27, 2011 we issued one convertible promissory note in the principal amount of \$35,000 that bears interest at a rate of 8% per annum at a variable conversion price of 51% of the market price calculated based on the average of the lowest 3 days during the preceding 10 days before conversion. The issuance of the note was exempt from registration under Section 4 (2) of the Securities Act. No underwriter was involved in the offer of sale of the note. The issuance of the note did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the investor had the necessary investment intent as required by Section 4(2) since it agreed to, and received, securities bearing a legend stating that such note are restricted. This restriction ensures that this note will not be immediately redistributed into the market and therefore not part of a public offering.

On October 10, 2011, the Company issued 100,000 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On October 24, 2011, the Company issued 200,000 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On October 31, 2011, the Company issued 200,000 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On November 6, 2011 we issued one convertible promissory note in the principal amount of \$27,000 that bears interest at a rate of 5% per annum and converts to common stock at a variable conversion price of 50% of the market price calculated based on the average of the lowest day during the preceding 5 days before conversion. The issuance of the note was exempt from registration under Section 4 (2) of the Securities Act. No underwriter was involved in the offer of sale of the note. The issuance of the note did not involve a public offering. This issuance was done with no general solicitation or advertising by us. In addition, the investor had the necessary investment intent as required by Section 4(2) since it agreed to, and received, securities bearing a legend stating that such note are restricted. This restriction ensures that this note will not be immediately redistributed into the market and therefore not part of a public offering.

On November 9, 2011, the Company issued 97,038 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On November 15, 2011, the Company issued 238,096 common shares pursuant to a convertible promissory note to dated March 29, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On November 21, 2011, the Company issued 222,223 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On December 6, 2011, the Company issued 222,223 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On December 28, 2011, the Company issued 283,334 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On January 17, 2012, the Company issued 283,334 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On February 3, 2012, the Company issued 283,333 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On February 15, 2012, the Company issued 10,690,000 common shares pursuant to a convertible promissory note to dated June 6, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On February 15, 2012, the Company issued 25,000,000 common shares pursuant to a conversion notice from its Chief Executive Officer of 2,500,000 shares of Class A Convertible Preferred. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On February 15, 2012, the Company issued 25,000,000 common shares pursuant to a conversion notice from its Chief Financial Officer of 2,500,000 shares of Class A Convertible Preferred. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On March 9, 2012, the Company issued 1,774,193 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On May 10, 2012, the Company issued 3,333,333 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On May 16, 2012, the Company issued 3,200,000 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

On May 30, 2012, the Company issued 3,333,333 common shares pursuant to a convertible promissory note to dated February 3, 2011. These shares of common stock were issued in reliance on Section 3 (a)(9) of the Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

N/A

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

EXHIBIT INDEX

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
EX-101.INS	XBRL INSTANCE DOCUMENT				
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA				
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE				
EX-101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE				
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE				
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE				

SIGNATURES

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.

MINERCO RESOURCES INC.

June 19, 2012

BY: /s/ V. Scott Messina
V. Scott Messina,
President
(Principal Executive Officer)

June 19, 2012

BY: /s/ Sam Messina III
Sam Messina III,
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit	Document Description	Incorporated by reference			Filed herewith
		Form	Date	Number	
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
EX-101.INS	XBRL INSTANCE DOCUMENT				
EX-101.SCH	XBRL TAXONOMY EXTENSION SCHEMA				
EX-101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE				
EX-101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE				
EX-101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE				
EX-101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE				