

**PART I – FINANCIAL INFORMATION**

**Item 1: Financial Statements**

**Thunder Mountain Gold, Inc.**

**Consolidated Balance Sheets**

*September 30, 2017 and December 31, 2016*

	<i>(Unaudited)</i> September 30, 2017		December 31, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,763	\$	108,184
Prepaid expenses and other assets	30,180		33,903
<b>Total current assets</b>	<u>36,943</u>		<u>142,087</u>
Property and Equipment:			
Land	280,333		280,333
Equipment, net of accumulated depreciation of \$63,291 and \$15,047, respectively (Note 4)	119,314		218,918
Total property and equipment	<u>399,647</u>		<u>499,251</u>
Mineral interests (Note 3)	479,477		479,477
<b>Total assets</b>	<u>\$ 916,067</u>	<u>\$</u>	<u>1,120,815</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>			
Current liabilities:			
Accounts payable and other accrued liabilities	\$ 89,195	\$	86,813
Accrued related party liability (Note 6)	181,313		181,313
Accrued interest payable to related parties (Note 5)	30,051		17,723
Deferred payroll (Note 6)	802,500		568,500
Related party notes payable (Note 5)	126,576		126,576
<b>Total current liabilities</b>	<u>1,229,635</u>		<u>980,925</u>
Accrued reclamation costs (Note 3)	65,000		65,000
<b>Total liabilities</b>	<u>1,294,635</u>		<u>1,045,925</u>
Commitments and Contingencies (Notes 2, 3)			
Stockholders' equity (deficit):			
Preferred stock; \$0.0001 par value, 5,000,000 shares authorized; no shares issued or outstanding	-		-
Common stock; \$0.001 par value; 200,000,000 shares authorized, 55,095,579 and 54,680,579 shares issued and outstanding	55,096		54,681
Additional paid-in capital	5,444,332		5,350,513
Less: 11,700 shares of treasury stock, at cost	(24,200)		(24,200)
Accumulated deficit	<u>(6,032,498)</u>		<u>(5,484,806)</u>
<b>Total Thunder Mountain Gold, Inc stockholders' equity (deficit)</b>	<u>(557,270)</u>		<u>(103,812)</u>
Noncontrolling interest in Owyhee Gold Trust (Note 3)	178,702		178,702
<b>Total stockholders' equity (deficit)</b>	<u>(378,568)</u>		<u>74,890</u>
<b>Total liabilities and stockholders' equity (deficit)</b>	<u>\$ 916,067</u>	<u>\$</u>	<u>1,120,815</u>

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

**Thunder Mountain Gold, Inc.**  
**Consolidated Statements of Operations (unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Expenses:				
Exploration expenses	46,613	49,318	144,881	143,138
Legal and accounting	9,728	64,837	48,975	231,396
Management and administrative	69,354	271,579	284,074	408,413
Loss on sale of equipment	1,021	-	1,021	-
Depreciation	15,003	-	57,582	-
Total expenses	<u>141,719</u>	<u>385,734</u>	<u>536,533</u>	<u>782,947</u>
Other income (expense):				
Interest expense, related parties	(4,612)	(5,074)	(12,454)	(12,426)
Miscellaneous Income	1,200	-	1,200	-
Foreign exchange gain (loss)	-	26	95	5,238
Total other income (expense)	<u>(3,412)</u>	<u>(5,048)</u>	<u>(11,159)</u>	<u>(7,188)</u>
<b>Net Loss</b>	<u>(145,131)</u>	<u>(390,782)</u>	<u>(547,692)</u>	<u>(790,135)</u>
Net Income (loss) – noncontrolling interest in Owyhee Gold Trust	-	-	-	-
Net Loss – Thunder Mountain Gold, Inc.	<u>\$ (145,131)</u>	<u>\$ (390,782)</u>	<u>\$ (547,692)</u>	<u>\$ (790,135)</u>
Net Loss per common share-basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding-basic and diluted	<u>54,864,185</u>	<u>51,173,456</u>	<u>54,791,550</u>	<u>50,667,823</u>

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

**Thunder Mountain Gold, Inc.**  
**Consolidated Statements of Cash Flows (Unaudited)**

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (547,692)	\$ (790,135)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	57,582	-
Loss on sale of equipment	1,021	-
Common stock options issued for services	53,558	175,199
Change in:		
Prepaid expenses and other assets	3,723	(2,637)
Accounts payable and other accrued liabilities	2,384	(75,536)
Accrued related party liability	-	49,140
Accrued interest payable to related parties	12,453	12,426
Deferred payroll	234,000	231,000
Net cash used by operating activities	<u>(182,971)</u>	<u>(400,543)</u>
Cash flows from investing activities:		
Proceeds from sale of equipment	41,000	-
Net cash provided by investing activities	<u>41,000</u>	<u>-</u>
Cash flows from financing activities:		
Proceeds from sale of common stock	-	285,000
Proceeds from exercise of common stock warrants	-	142,500
Proceeds from exercise of common stock options	20,550	-
Proceeds from related parties notes payable	20,000	25,000
Payments on related parties notes payable	-	(7,500)
Net cash provided by financing activities	<u>40,550</u>	<u>445,000</u>
Net increase (decrease) in cash and cash equivalents	(101,421)	44,457
Cash and cash equivalents, beginning of period	108,184	12,143
<b>Cash and cash equivalents, end of period</b>	<b>\$ <u>6,763</u></b>	<b>\$ <u>56,600</u></b>
<b>Noncash financing and investing activities:</b>		
Common stock issued for payment of related parties notes payable	\$ -	\$ 50,000
Stock options exercised in satisfaction of related parties notes payable and related accrued interest payable	20,125	-

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

## 1. Summary of Significant Accounting Policies and Business Operations

### Business Operations

Thunder Mountain Gold, Inc. (“Thunder Mountain” or “the Company”) was originally incorporated under the laws of the State of Idaho on November 9, 1935, under the name of Montgomery Mines, Inc. In April 1978, the Montgomery Mines Corporation was obtained by a group of the Thunder Mountain property holders and changed its name to Thunder Mountain Gold, Inc., with the primary goal to further develop their holdings in the Thunder Mountain Mining District, located in Valley County, Idaho. Thunder Mountain Gold, Inc. takes its name from the Thunder Mountain Mining District, where its principal lode mining claims were located. For several years, the Company’s activities were restricted to maintaining its property position and exploration activities. During 2005, the Company sold its holdings in the Thunder Mountain Mining District. During 2007, the Company acquired the South Mountain Mines property in southwest Idaho and initiated exploration activities on that property, which continue today.

### Basis of Presentation and Going Concern

The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information, as well as the instructions to the Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the nine-month period ended September 30, 2017 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2017. For further information, refer to the financial statements and the footnotes thereto in our Annual Report on Form 10-K for the year ended December 31, 2016.

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The Company is an exploration stage company and has historically incurred losses and does not have sufficient cash at September 30, 2017 to fund normal operations for the next 12 months. The Company has no recurring source of revenue and its ability to continue as a going concern is dependent on the Company’s ability to raise capital to fund its future exploration and working capital requirements. The Company’s plans for the long-term return to and continuation as a going concern include financing the Company’s future operations through sales of its common stock and/or debt and the eventual profitable exploitation of its mining properties. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The Company is currently investigating a number of alternatives for raising additional capital with potential investors, lessees and joint venture partners.

The consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. If the going concern basis was not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

### Reclassifications

Certain reclassifications have been made to conform prior period’s data to the current presentation. These reclassifications have no effect on previously reported operations, stockholders’ equity (deficit) or cash flows.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company; its wholly owned subsidiaries, Thunder Mountain Resources, Inc. and South Mountain Mines, Inc.; and, effective November 6, 2016, a company in which the Company has majority control, Owyhee Gold Trust, LLC (“OGT”). Intercompany accounts are eliminated in consolidation.

The Company has established 75% ownership and full management of OGT. Thus, OGT’s financial information is included 100% in the Company’s consolidated financial statements since November 6, 2016. The Company’s consolidated financial statements reflect the other investor’s 25% non-controlling interest in OGT. See Note 3 for further information.

### Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring the use of management estimates and assumptions include the carrying value of properties and mineral interests, environmental remediation liabilities, deferred tax assets, stock

based compensation and the fair value of financial and derivative instruments. Management's estimates and assumptions are based on historical experience and other assumptions believed to be reasonable under the circumstances. Actual results could differ from those estimates.

#### Cash and cash equivalents

For the purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be a cash equivalent.

#### Income Taxes

The Company recognizes deferred income tax liabilities or assets at the end of each period using the tax rate expected to be in effect when the taxes are actually paid or recovered. A valuation allowance is recognized on deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

#### Fair Value Measurements

When required to measure assets or liabilities at fair value, the Company uses a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used. The Company determines the level within the fair value hierarchy in which the fair value measurements in their entirety fall. The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant other observable inputs, and Level 3 uses significant unobservable inputs. The amount of the total gains or losses for the period are included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date. The Company has no financial assets or liabilities that are adjusted to fair value on a recurring basis.

#### Financial Instruments

The Company's financial instruments include cash and cash equivalents and related party notes payable the carrying value of which approximates fair value based on the nature of those instruments.

#### Mineral Interests

The Company capitalizes costs for acquiring mineral interests and expenses costs to maintain mineral rights and leases as incurred. Exploration costs are expensed in the period in which they occur. Should a property reach the production stage, these capitalized costs would be amortized using the units-of-production method on the basis of periodic estimates of ore reserves. Mineral properties are periodically assessed for impairment of value and any subsequent losses are charged to operations at the time of impairment. If a property is abandoned or sold, its capitalized costs are charged to operations.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are based on the estimated useful lives of the assets and are computed using straight-line or units-of-production methods. The expected useful lives of most of the Company's equipment ranges between 3 and 10 years. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations.

#### Investments in Joint Venture

The Company's accounting policy for joint ventures is as follows:

1. The Company uses the cost method when it does not have joint control or significant influence in a joint venture. Under the cost method, these investments are carried at cost. If other than temporary impairment in value is determined, it would then be charged to current net income or loss.
2. If the Company enters into a joint venture in which there is joint control between the parties or the Company has significant influence, the equity method is utilized whereby the Company's share of the ventures' earnings and losses is included in the statement of operations as earnings in joint ventures and its investments therein are adjusted by a similar amount. If other than temporary impairment in value is determined, it would then be charged to current net income or loss.
3. In a joint venture where the Company holds more than 50% of the voting interest and has significant influence, the joint venture is typically consolidated with the presentation of non-controlling interest. In determining whether significant influences exist, the Company considers its participation in policy-making decisions and its representation on the

venture's management committee. See Note 3 regarding the Company's accounting for its investment in Owyhee Gold Trust, LLC,

### Reclamation and Remediation

The Company's operations have been, and are subject to, standards for mine reclamation that have been established by various governmental agencies. The Company would record the fair value of an asset retirement obligation as a liability in the period in which the Company incurred a legal obligation for the retirement of tangible long-lived assets. A corresponding asset would also be recorded and depreciated over the life of the asset. After the initial measurement of the asset retirement obligation, the liability is adjusted at the end of each reporting period to reflect changes in the estimated future cash flows underlying the obligation. Determination of any amounts recognized upon adoption is based upon numerous estimates and assumptions, including future retirement costs, future inflation rates and the credit-adjusted risk-free interest rates.

For non-operating properties, the Company accrues costs associated with environmental remediation obligations when it is probable that such costs will be incurred and they are reasonably estimable. Such costs are based on management's estimate of amounts expected to be incurred when the remediation work is performed.

### Share-Based Compensation

Share-based payments to employees and directors, including grants of employee stock options, are measured at fair value and expensed in the statement of operations over the vesting period.

### Recent Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17 Income Taxes - Balance Sheet Classification of Deferred Taxes (Topic 740). The update is designed to reduce complexity of reporting deferred income tax liabilities and assets into current and non-current amounts in a statement of financial position. ASU No. 2015-17 requires the presentation of deferred income taxes, changes to deferred tax liabilities and assets be classified as non-current in the statement of financial position. The update is effective for fiscal years beginning after December 15, 2016. The adoption of this update on January 1, 2017 had no impact on the consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The update simplifies the accounting for stock-based compensation, including income tax consequences and balance sheet and cash flow statement classification of awards. The update is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The adoption of this update on January 1, 2017 had no impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update provides guidance on classification for cash receipts and payments related to eight specific issues. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of implementing this update on the consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company will apply the provisions of the update to potential future acquisitions occurring after the effective date.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

## Net Income (Loss) Per Share

The Company is required to have dual presentation of basic earnings per share (“EPS”) and diluted EPS. Basic EPS is computed as net income divided by the weighted average number of common shares outstanding for the period. Diluted EPS is calculated based on the weighted average number of common shares outstanding during the period plus the effect of potentially dilutive common stock equivalents, including options and warrants to purchase the Company’s common stock. As of September 30, 2017, and 2016, potentially dilutive common stock equivalents not included in the calculation of diluted earnings per share as their effect would have been anti-dilutive are:

	<b>2017</b>	<b>2016</b>
Stock options	4,700,000	4,515,000
Warrants	-	3,590,000
<b>Total possible dilution</b>	<b>4,700,000</b>	<b>8,105,000</b>

## 2. Commitments

During 2008 and 2009, three lease arrangements were made with land owners that own land parcels adjacent to the Company’s South Mountain patented and unpatented mining claims. The leases were originally for a seven-year period, with annual payments based on \$20 per acre. The leases were renewed for an additional 10 years at \$30 per acre paid annually, these payments are listed in the table below. The lease payments have no work requirements.

	<b>Annual Payment</b>
Acree Lease (June)	\$ 3,390
Lowry Lease (October)	11,280
Idaho South Mountain LLC Lease (April)	1,680
<b>Total</b>	<b>\$16,350</b>

On March 21, 2011, the Company signed an exploration agreement with Newmont Mining Corporation (“Newmont”) on the Trout Creek Project that significantly expands the Trout Creek target area. Newmont’s private mineral package added to the Project surrounds the Company’s South Mountain claim group and consists of about 9,565 acres within a thirty-square mile Area of Influence defined in the agreement. Under the terms of the agreement, the Company is responsible for conducting the exploration program and is obligated to expend a minimum of \$150,000 over the ensuing two years, with additional expenditures possible in future years.

On October 1, 2015, the Company signed an Amendment with Newmont USA Limited that modifies and extends the original Trout Creek Joint Exploration Agreement. The extension allows the Company modified work commitments on the project reducing the annual amount to \$150,000 of work obligations by October 31, 2016.

On October 27, 2016, the Company decided to terminate the exploration agreement with Newmont. The Company still retains 78 unpatented claims (1,600 acres) in Trout Creek of the target area. The Company pays annual fees to BLM of \$3,255 and Lander County \$940 fees in maintaining the property.

On November 4, 2016, the Company agreed to pay its former partner \$5,000 per year in advanced royalties on the South Mountain Project. See Note 3 regarding royalty requirements for the South Mountain Project.

## 3. South Mountain Project

On November 8, 2012, the Company, through its wholly-owned subsidiary South Mountain Mines, Inc., (“SMMI”), and Idaho State Gold Company II, LLC (“ISGC II”) formed the Owyhee Gold Trust, LLC, (“OGT”) a limited liability company. In 2015 and through November 2016, disagreements between SMMI and ISGC II resulted in litigation about the status of OGT. In November 2016, the parties entered into judicially-confirmed Settlement Agreement and Release that resolved outstanding disagreements, and provided for a new operating agreement by which SMMI obtained an option to acquire 100% of OGT’s interest in the South Mountain Project.

Under the new OGT operating agreement, SMMI is the sole manager and pays all expenses for exploration and development of the property. SMMI and ISGC II have 75% and 25% ownership, respectively, in OGT. SMMI and OGT have a separate Mining Lease with Option to Purchase (“Lease Option”) under which SMMI has an option to purchase the South Mountain mineral interest for a capped \$5 million less net returns royalties paid through the date of exercise. The Lease Option expires

in November 2026. If SMMI exercises the option, the option payment \$5 million less advance royalties will be distributed 100% by OGT to ISGC II. Under the Lease Option, SMMI pays a \$5,000 net returns royalty annually on November 4.

During 2015 and through the settlement date (November 6, 2016), the Company managed the South Mountain mineral interests and recognized expenses as Company expenses.

The carrying value of the mineral property is \$479,477 at both September 30, 2017 and December 31, 2016.

#### 4. Property and Equipment

The Company's property and equipment are as follows:

	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Vehicles	\$ 22,441	\$ 22,441
Buildings	65,071	65,072
Construction Equipment	36,447	87,806
Mining Equipment	58,646	58,646
	<hr/> 182,605	<hr/> 233,965
Accumulated Depreciation	(63,291)	(15,047)
	<hr/> 119,314	<hr/> 218,918
Land	280,333	280,333
Total Property and Equipment	<u>\$ 399,647</u>	<u>\$ 499,251</u>

On August 22, 2017, the Company's board of directors approved a resolution to sell a Caterpillar 950G loader to a construction company in the amount of \$41,000 cash. This asset had a carrying value of \$42,021 resulting in a loss on sale of equipment of \$1,021.

#### 5. Related Parties Notes Payable

At January 1, 2016, the Company had notes payable balances of \$84,268 and \$86,808 with Eric Jones, the Company's President and Chief Executive Officer and Jim Collard, the Company's Vice President and Chief Operating Officer, respectively.

On January 18, 2016, the Company initiated a private offering for an aggregate 6,700,000 shares of common stock. In connection with this offering, Jim Collard and Eric Jones exchanged \$25,000 each of their related notes payables for a total of 1 million shares. On November 15, 2016, Jim Collard exchanged an additional \$2,000 to exercise warrants and received 20,000 shares of common stock.

On July 8, 2016, the Company executed two new promissory notes payable to Eric Jones and Jim Collard. The amount of the notes was \$15,000 and \$10,000, respectively, for a total of \$25,000. The terms of these note are a 2% interest rate accrued per month for a term of two months. During the year ended December 31, 2016, the Company paid \$17,500 on Mr. Jones' outstanding note balance. At September 30, 2017 and December 31, 2016, the notes payable balances were \$56,768 and \$69,808 for Mr. Jones and Mr. Collard, respectively. These notes, as amended, are due December 31, 2017

On June 21, 2017, the Company originated a short term promissory notes payable to a Director of the Company, Paul Beckman. The note has a principal amount of \$20,000 with simple interest calculated at 1% per month. On July 19, 2017, Mr. Beckman exercised stock options for 275,000 shares of common stock for total consideration of \$28,275 which was in the form of the balance due on his note and accrued interest payable of \$20,000 and \$125, respectively, and \$8,150 in cash.

#### 6. Related Party Transactions:

In addition to the related parties notes payable discussed in Note 5, the Company had the following related party transactions.

Three of the Company's officers are deferring compensation for services. At September 30, 2017, the amounts due them are as follows: Eric Jones - \$320,000 (December 31, 2016 - \$230,000), Jim Collard - \$320,000 (December 31, 2016 - \$230,000),



and Larry Thackery, Chief Financial Officer - \$162,500 (December 31, 2016 - \$108,500). Compensation expense for services performed by these related parties was \$78,000 and \$78,000 during the quarters ended September 30, 2017 and 2016, respectively and \$234,000 and \$231,000 during the nine months ended September 30, 2017 and 2016, respectively.

The Company engaged Baird Hanson LLP (“Baird”), a company owned by one of the Company’s directors, to provide legal services. Baird had no legal expenses in 2017. Legal expenses of \$54,000 were incurred during the nine months ended September 30, 2016. At September 30, 2017 and December 31, 2016, the balance due to Baird is \$181,313.

During 2017, Jim Collord and Eric Jones have advanced funds to the Company for operating expenses. The balances due them on September 30, 2017 were \$5,035 and \$10,971, respectively, and are included in Accounts payable and other accrued expenses on the consolidated balance sheet.

## 7. Stockholders’ Equity

The Company’s common stock has a par value of \$0.001 with 200,000,000 shares authorized. The Company also has 5,000,000 authorized shares of preferred stock with a par value of \$0.0001.

In January 2016, the Company sold 5,700,000 shares of common stock at a rate of \$0.05 for \$285,000. In addition, Mr. Jones and Mr. Collord exchanged \$50,000 of their notes outstanding (see Note 4) into 1,000,000 shares of common stock at the same rate of \$0.05 per share. There were no warrants issued with the shares.

On May 12, 2016, the Company extended the expiration 4,365,000 outstanding warrants issued during 2014 for an additional six months to November 24, 2016. The Company also reduced the exercise price from \$0.15 to \$0.10.

In 2016, warrant holders exercised 3,590,000 warrants for shares of common stock at a price of \$0.10 per share for proceeds of \$359,000. In addition, warrants for 203,030 shares of common stock were exercised at \$0.10 in exchange for accounts payable balances totaling \$20,434. As disclosed in Note 4, Jim Collard exercised warrants for 20,000 shares of common stock in exchange for a \$2,000 payment towards his note payable balance. At September 30, 2017, the Company has no outstanding warrants.

## 8. Stock Options

The Company has established a Stock Option Incentive Plan (“SIP”) to authorize the granting of stock options up to 10 percent of the total number of issued and outstanding shares of common stock to employees, directors and consultants. Upon exercise of options, shares are issued from the available authorized shares of the Company.

Option awards are generally granted with an exercise price equal to the fair market value of the Company’s stock at the date of grant.

Effective March 21, 2017 the Company, granted 600,000 stock options to three Directors of the Company. The options are exercisable on or before March 31, 2022 at a price of \$0.10 for 200,000 shares, and at a price of \$0.09 for the remaining 400,000 shares. After this grant, the Company has 5,115,000 outstanding stock options that represent 9.4% of the issued and outstanding shares of common stock. The fair value of the options was determined to be \$53,558 using the Black Scholes model. The options were fully vested upon grant and recognized as compensation expense during the quarter ended March 31, 2017.

On July 19, 2017, Paul Beckman exercised stock options representing 275,000 shares of common stock for total consideration of \$28,275 which was in the form of the balance due on his note and accrued interest payable of \$20,000 and \$125, respectively, and \$8,150 in cash. Additionally, Larry Thackery exercised stock options for 140,000 shares of common stock for \$12,400 in cash.

The fair value of each option award was estimated on the date of the grant using the assumptions noted in the following table:

Number of Options	600,000
Stock price	\$0.09
Exercise price	\$0.09 to \$0.10
Expected volatility	235.5%
Expected dividends	-
Expected terms (in years)	5.0
Risk-free rate	1.96%

The following is a summary of the Company's options issued under the Stock Option Incentive Plan:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable at December 31, 2015	3,990,000	0.17
Expired	(2,000,000)	(0.27)
Granted	<u>2,525,000</u>	<u>0.10</u>
Outstanding and exercisable at December 31, 2016	4,515,000	\$ 0.08
Granted	600,000	0.09
Exercised	<u>(415,000)</u>	<u>0.10</u>
Outstanding and exercisable at September 30, 2017	<u><u>4,700,000</u></u>	<u><u>\$0.08</u></u>

The average remaining contractual term of the options outstanding and exercisable at September 30, 2017 was 3.23 years. As of September 30, 2017, options outstanding and exercisable had a \$589,098 aggregate intrinsic value based on the Company's stock price of \$0.21.

## 9. Subsequent Events

On October 25, 2017, the Company borrowed \$100,000 from Paul Beckman in the form of a note payable. The note bears simple interest of 1% per month, has a term of six months, and contains a conversion option at \$0.18 per common share.