

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 March 31, 2021
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: 001-08429



THUNDER MOUNTAIN GOLD, INC.

(Exact name of Registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

91-1031015

(IRS identification No.)

11770 W President Dr. STE F

Boise, Idaho

(Address of Principal Executive Offices)

83713-8986

(Zip Code)

(208) 658-1037

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	THMG THM	OTCQB TSX-V

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act) or an emerging growth company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Number of shares of issuer's common stock outstanding at April 28, 2021: 60,145,579

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

**Thunder Mountain Gold, Inc.
Consolidated Balance Sheets (Unaudited)**

March 31, 2021 and December 31, 2020

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 415,428	\$ 274,155
Prepaid expenses and other assets	6,659	20,128
Investment in BeMetals, at fair value (Note 4)	556,820	-
Total current assets	978,907	294,283
Property and Equipment:		
Land	280,333	280,333
Equipment, net of accumulated depreciation of \$178,647 and \$177,650, respectively	3,958	4,954
Total property and equipment	284,291	285,287
Right to use asset	-	1,332
Investment in BeMetals, at fair value (Note 4)	2,227,296	3,018,634
Total assets	\$ 3,490,494	\$ 3,599,536
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 36,835	\$ 60,410
Accrued related party liability (Note 7)	181,685	186,685
Accrued interest payable to related parties (Note 7)	88,531	88,531
Operating lease liability – current (Note 10)	-	1,332
Advance from BeMetals (Note 3)	28,472	38,384
Deferred officer compensation (Note 7)	1,041,500	1,041,500
Related parties notes payable (Note 7)	86,576	106,576
Total current liabilities	1,463,599	1,523,418
Accrued reclamation costs	65,000	65,000
Total liabilities	1,528,599	1,588,418
Commitments and Contingencies (Notes 2 and 3)		
Stockholders' equity:		
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, 60,145,579 shares issued and outstanding	60,146	60,146
Additional paid-in capital	6,336,316	6,336,316
Less: 11,700 shares of treasury stock, at cost	(24,200)	(24,200)
Accumulated deficit	(4,584,069)	(4,534,846)
Total Thunder Mountain Gold, Inc stockholders' equity	1,788,193	1,837,416
Noncontrolling interest in Owyhee Gold Trust (Note 3)	173,702	173,702
Total stockholders' equity	1,961,895	2,011,118
Total liabilities and stockholders' equity	\$ 3,490,494	\$ 3,599,536

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

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

	Three Months Ended March 31,	
	2021	2020
Revenues:		
Gain on mineral interest (Note 3)	\$ 250,000	\$ -
Management service income	75,000	75,000
Total revenues	<u>325,000</u>	<u>75,000</u>
Operating expenses:		
Exploration	5,011	3,318
Legal and accounting	21,810	28,459
Management and administrative	112,182	262,150
Depreciation	996	5,239
Total operating expenses	<u>139,999</u>	<u>299,166</u>
Net operating income (loss)	<u>185,001</u>	<u>(224,166)</u>
Other income (expense):		
Interest expense, related parties	-	(3,797)
Unrealized loss on investment	(234,518)	(786,271)
Other	294	618
Total other income (expense)	<u>(234,224)</u>	<u>(789,450)</u>
Net income (loss)	(49,223)	(1,013,616)
Net income – noncontrolling interest in Owyhee Gold Trust	-	-
Net (loss) – Thunder Mountain Gold, Inc.	<u>\$ (49,223)</u>	<u>\$ (1,013,616)</u>
Net income (loss) per common share-basic and diluted	<u>\$ Nil</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding-basic and diluted	<u>60,145,579</u>	<u>60,145,579</u>

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

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

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net (loss)	\$ (49,223)	\$ (1,013,616)
Adjustments to reconcile net (loss) to net cash used by operating activities:		
Depreciation	996	5,239
Stock based compensation	-	152,580
Gain on mineral interest	(250,000)	-
Unrealized loss on investment	234,518	786,271
Change in:		
Prepaid expenses and other assets	13,469	(15,497)
Accounts payable and other accrued liabilities	(28,575)	(8,033)
Accrued interest payable to related parties	-	3,797
Advance from BeMetals	(9,912)	(35,999)
Net cash used by operating activities	<u>(88,727)</u>	<u>(125,258)</u>
Cash flows from investing activities:		
Proceeds from mineral interest	<u>250,000</u>	<u>-</u>
Net cash provided by investing activities	<u>250,000</u>	<u>-</u>
Cash flows from financing activities:		
Payments on related parties notes payable	<u>(20,000)</u>	<u>-</u>
Net cash used by financing activities	<u>(20,000)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	141,273	(125,258)
Cash and cash equivalents, beginning of period	<u>274,155</u>	<u>252,415</u>
Cash and cash equivalents, end of period	<u>\$ 415,428</u>	<u>\$ 127,157</u>

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

Thunder Mountain Gold, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the periods ended March 31, 2021 and March 31, 2020

	Common Stock Shares	Common Stock Amount	Additional Paid- In Capital	Treasury Stock	Accumulated Deficit	Non- Controlling Interest in OGT	Total
Balances at January 1, 2020	60,145,579	\$ 60,146	\$ 6,176,576	\$(24,200)	\$ (5,751,527)	\$ 173,702	\$ 634,697
Stock based compensation	-	-	152,580	-	-	-	152,580
Net income (loss)	-	-	-	-	(1,013,616)	-	(1,013,616)
Balances at March 31, 2020	<u>60,145,579</u>	<u>\$ 60,146</u>	<u>\$ 6,329,156</u>	<u>\$(24,200)</u>	<u>\$ (6,765,143)</u>	<u>\$ 173,702</u>	<u>\$ (226,339)</u>
Balances at January 1, 2021	60,145,579	\$ 60,146	\$ 6,336,316	\$(24,200)	\$ (4,534,846)	\$ 173,702	\$ 2,011,118
Net income (loss)	-	-	-	-	(49,223)	-	(49,223)
Balances at March 31, 2021	<u>60,145,579</u>	<u>\$ 60,146</u>	<u>\$ 6,336,316</u>	<u>\$(24,200)</u>	<u>\$ (4,584,069)</u>	<u>\$ 173,702</u>	<u>\$ 1,961,895</u>

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”, “THMG”, 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.

On February 27, 2019, the Company entered into an Option Agreement, (the “BeMetals Option Agreement”) with BeMetals Corporation. Under the terms of the BeMetals Option Agreement, BMET USA will be entitled to purchase 100% of the issued and outstanding shares of South Mountain Mines, Inc. (“SMMI”) from Thunder Mountain Resources, Inc. (“TMRI”), both wholly owned subsidiaries of the Company. The original term of the agreement was for two years, but was extended on May 18, 2020, by three months from the existing BeMetals Option Agreement date, due to the COVID-19 pandemic, and business conditions surrounding restricted international travel, and corresponding access to capital markets. During this term, BeMetals is required to conduct a preliminary economic assessment (“PEA”), completed by a mutually agreed third-party engineering firm. Over its term, this agreement requires issuance of 10,000,000 million shares of BMET stock to the Company by BeMetals, and cash payments to the Company of \$1,350,000: \$1,100,000 in cash and \$250,000 in exchange for shares of the Company’s common stock. In the event that BeMetals decides not to proceed with the South Mountain Project, BeMetals will not be obligated to make any additional payments. See Note 3 for further information.

Basis of Presentation and Going Concern

These unaudited interim consolidated financial statements have been prepared by the management of the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements. In the opinion of the Company’s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim consolidated financial statements have been included.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities known to exist as of the date the financial statements are published, and the reported amounts of revenues and expenses during the reporting period. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of the Company’s financial statements; accordingly, it is possible that the actual results could differ from these estimates and assumptions, which could have a material effect on the reported amounts of the Company’s financial position and results of operations. Operating results for the three months ended March 31, 2021 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2021.

For further information refer to the financial statements and footnotes thereto in the Company’s audited financial statements for the year ended December 31, 2020 as filed with the Securities and Exchange Commission.

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The Company has historically incurred losses, however, under the BeMetals Option Agreement (Note 3), the Company now has a recurring source of revenue, and its ability to continue as a going concern is no longer dependent on equity capital raises and borrowings. However, if necessary, the Company continues to have the ability to raise additional capital in order to fund its future exploration and

working capital requirements. The Company's plans for the long-term continuation as a going concern include operating on the cash flows and consideration payments provided under the BeMetals Option Agreement.

COVID-19

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention. Its rapid spread around the world and throughout the United States prompted many countries, including the United States, to institute restrictions on travel, public gatherings and certain business operations. These restrictions disrupted economic activity in Thunder Mountain Gold's business related to raising capital. As of March 31, 2021 and December 31, 2020, the disruption did not materially impact the Company's financial statements. However, if the severity of the economic disruptions increase as the duration of the COVID-19 pandemic continues, the negative financial impact could be significantly greater in future periods.

The effects of the continued outbreak of COVID-19 and related government responses could also include extended disruptions to supply chains and capital markets, reduced labor availability and a prolonged reduction in economic activity. These effects could have a variety of adverse impacts to the Company. As of March 31, 2021 and December 31, 2020, there were no material adverse impacts to the Company's operations due to COVID-19.

In addition, the economic disruptions caused by COVID-19 could also adversely impact the impairment risks for certain long-lived assets, and equity method investments. Thunder Mountain Gold evaluated these impairment considerations and determined that no such impairments occurred as of March 31, 2021 and December 31, 2020.

The effects of the continued outbreak of COVID-19 and related government responses could have disruptions to the "BeMetals Option Agreement". In the event, if BeMetals decides not to proceed with the South Mountain Project, BeMetals will not be obligated to make any additional payments. The COVID-19 outbreak could have a variety of adverse impacts to the Company, including their ability to continue operations of their exploration under the BeMetals Operation Agreement. As of March 31, 2021, there were no material adverse impacts to the Company's BeMetal Options Agreement due to COVID-19.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company; its wholly owned subsidiaries, Thunder Mountain Resources, Inc. ("TMRI") and South Mountain Mines, Inc. ("SMMI"); and a company in which the Company owns 75% and has majority control, Owyhee Gold Trust, LLC ("OGT"). The Company's consolidated financial statements reflect the other investor's 25% non-controlling, capped interest in OGT. Intercompany accounts are eliminated in consolidation.

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, and stock-based compensation. 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.

Revenue Recognition

Management service revenue is recognized when the Company has satisfied its performance obligation required under its management contract. Such obligation is satisfied over time as work is performed and the Company has a contractual right to payment.

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.

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.

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. At March 31, 2021, the Company has one financial asset, investment in equity security, that is adjusted to fair value on a recurring basis for which the fair value is determined based on Level 1 inputs as the equity security is traded on a stock exchange. The Company has no financial liabilities that are adjusted to fair value on a recurring basis.

Financial Instruments

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

Investments

The Company determines the appropriate classification of investments at the time of acquisition and re-evaluates such determinations at each reporting date. Equity securities determined to be marketable are carried at fair value determined using Level 1 fair value measurement inputs with the change in fair value recognized as unrealized gain (loss) in the consolidated statement of operations each reporting period. Gains and losses on the sale of securities are recognized on a specific identification basis.

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 based on periodic estimates of ore reserves. Mineral interests are periodically assessed for impairment of value and any subsequent losses are charged to operations at the time of impairment.

If a mineral interest is abandoned or sold, its capitalized costs are charged to operations. Consideration received by the Company pursuant to joint ventures or purchase option agreements is applied against the carrying value of the related mineral interest. When and if payments received exceed the carrying value, the excess amount is recognized as a gain in the Consolidated Statement of Operations in the period the consideration is received.

Leases

The Company accounts for its leases under ASC 842, *Leases*. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right-of-use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company's incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term. For finance leases, interest on the lease liability and the amortization of the right-of-use asset results in front-loaded expense over the lease term. Variable lease expenses are recorded when incurred.

Investments in Joint Ventures

For companies and joint ventures where the Company holds more than 50% of the voting interests, but less than 100%, and has significant influence, the company or joint venture is consolidated, and other investor interests are presented as noncontrolling. See Note 3 regarding the Company's investment in Owyhee Gold Trust. Joint Ventures in which the Company has the ability to exercise significant influence, but does not control, are accounted for under the equity method of accounting.

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.

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. At December 31, 2019 and 2020, the Company had accrued \$65,000 on its Consolidated Balance Sheets relating to estimated mine closure and reclamation costs on its South Mountain Mines property.

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 Consolidated Statement of Operations over the vesting period.

Recent Accounting Pronouncements

Accounting Standards Updates Adopted

In December 2019, the FASB issued ASU No. 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The update contains a number of provisions intended to simplify the accounting for income taxes. Adoption of this update on January 1, 2021 had no impact on the Company's consolidated financial statements.

In January 2020, the FASB issued ASU No. 2020-01, Clarifying the Interactions Between Topic 321, Topic 323 and Topic 815. ASU 2020-01 which makes improvements related to accounting for certain equity securities when the equity method of accounting is applied or discontinued, and scope considerations related to forward contracts and purchased options on certain securities. ASU 2020-01 is effective for fiscal years beginning after December 15, 2020. Adoption of this update on January 1, 2021 had no impact on the Company's consolidated financial statements.

Net Income (Loss) Per Share

The Company is required to have dual presentation of basic earnings per share (“EPS”) and diluted EPS. The Company calculates basic earnings (loss) per share by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding. We do not include the impact of any potentially dilutive common stock equivalents in our basic earnings (loss) per share calculations. Diluted earnings per share reflect potentially dilutive common stock equivalents, including options and warrants that could share in our earnings through the conversion of common shares, except where their inclusion would be anti-dilutive. For the quarters ended March 31, 2021 and 2020, stock options of 5,705,000 were excluded from the calculation of diluted earnings per share as their effect would have been anti-dilutive due to the net loss for the respective periods.

2. Mineral Interest Commitments

The Company has two lease arrangements with landowners 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 of \$20 per acre. The leases were renewed for an additional 10 years at \$30 per acre paid annually; committed payments are listed in the table below. The leases have no work requirements.

	<u>Annual Payment</u>
Acree Lease (June)	\$ 3,390
Lowry Lease (October)	11,280
Total	<u>\$ 14,670</u>

The Company has 78 unpatented claims (1,600 acres) in the Trout Creek area and 21 unpatented claims in the South Mountain area. The claim fees are paid on these unpatented claims annually as follows:

<u>Target Area</u>	<u>2021</u>
Trout Creek -State of Nevada	\$ 12,090
Trout Creek -Lander County, Nevada	940
South Mountain-State of Idaho	3,255
Total	<u>\$ 16,285</u>

3. South Mountain Project

BeMetals Option Agreement:

On February 27, 2019, the Company entered into an Option Agreement, (the “BeMetals Option Agreement”) with BeMetals Corp., a British Columbia corporation (“BeMetals”), and BeMetals USA Corp., a Delaware corporation (“BMET USA”), a wholly owned subsidiary of BeMetals. Under the terms of the BeMetals Option Agreement, BMET USA will be entitled to purchase 100% of the issued and outstanding shares of SMMI from TMRI, both wholly owned subsidiaries of the Company. SMMI is the Company’s subsidiary that holds the Company’s investment in the South Mountain project mineral interest. The original term of the agreement is for two years with BeMetals completing a preliminary economic assessment (“PEA”) completed by a mutually agreed third-party engineering firm. On May 18, 2020, by three months from the existing BeMetals Option Agreement date, due to the COVID-19 pandemic, and business conditions surrounding restricted international travel, and corresponding access to capital markets.

Pursuant to the BeMetals Option Agreement, BMET USA will be entitled to purchase 100% of the outstanding shares of SMMI from TMRI if the following obligations are satisfied:

- Tranche 1: cash payment of \$100,000 to TMRI within 1 business day of delivery of voting support agreements from shareholders of THMG who hold or control shares carrying more than 50% of the voting rights attached to all outstanding THMG Shares. Payment was received on March 5, 2019 and is nonrefundable.

- Tranche 2: Tranche 2 conditions were completed on June 10, 2019 with the issuance of 10 million common shares of BMET USA to TMRI having a fair value of \$1,883,875; and BMET USA's purchase of 2.5 million shares of THMG common stock at a price of \$0.10 per share, for an aggregate purchase price of \$250,000, on a private placement basis (received June 2019).
- Tranche 3: Cash payment of \$250,000 on or before the 6-month anniversary of the Tranche 2. Payment was received on December 10, 2019 and is nonrefundable.
- Tranche 4: Cash payment of \$250,000 on or before the 15-month anniversary of the Tranche 2, was received on September 10, 2020 and was recognized as a gain on sale of mineral interest during the year ended December 31, 2020.
- Tranche 5: Cash payment of \$250,000 on or before the 21-month anniversary of the Tranche 2, was received on March 5, 2021 and recognized as a gain on sale of mineral interest for the period ended March 31, 2021.
- Tranche 6: Cash payment of \$250,000 plus an additional payment paid in cash, BMET USA common shares or a combination of both, due on or before the 27-month anniversary of Tranche 2, which is September 10, 2021. The calculation of the additional payment is an amount equal to the lesser of 50% of the market capitalization of BeMetals at the time, and the greater of either \$10 million; or 20% the net present value of the South Mountain Project as calculated in a PEA.

Concurrent with the BeMetals Option Agreement, BMET USA and SMMI entered a management contract whereby BeMetals will pay \$25,000 monthly to SMMI for management services to enable BMET to perform exploration and development work with respect to the South Mountain Project. Management service income of \$75,000 was recognized for the quarters ended March 31, 2021 and 2020, respectively.

BeMetals provides funding to SMMI for ongoing project expenses, including office lease payments. Under the terms of the Option Agreement, SMMI's management provides BeMetals a request for fund monthly to cover the upcoming month's expenses. On March 31, 2021 and December 31, 2020, advances received from BeMetals that have not yet been spent totaled \$28,472 and \$38,384, respectively.

SMMI Joint Venture – OGT, LLC

The Company's wholly owned subsidiary SMMI is the sole manager of the South Mountain Project in its entirety through a separate Mining Lease with Option to Purchase ("Lease Option") with the Company's majority-owned subsidiary OGT. The Lease Option includes 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 of \$5 million less advance royalties will be distributed 100% by OGT to OGT's minority member. Under the Lease Option, SMMI pays an advance \$5,000 net returns royalty to OGT annually on November 4 which is distributed to OGT's minority member.

4. Investment in Equity Security

In June 2019 in connection with the BeMetals Option Agreement (see Note 3), the Company received 10,000,000 shares of BeMetals Corp. common stock that had a fair value of \$1,883,875 when received. At March 31, 2021, and December 31, 2020, the fair value of the shares is \$2,784,116 and \$3,018,634, respectively. For the quarter ended March 31, 2021, the Company recognized an unrealized loss for the change in fair value of the investment of \$234,518.

On March 29, 2021 the Company's Board of Directors approved the sale of 2,000,000 of the 10,000,000 common shares held in BeMetals, which were originally received in connection with the 2019 BeMetals Option Agreement. BeMetals has identified a prospective buyer. This sale meets the requirements under the terms of the BeMetals Option Agreement. The Board determined that it was important for the company to have a sufficient funds to sustain the company into the future amid these uncertain times. See Note 11.

5. Property and Equipment

The Company's property and equipment are as follows:

	March 31, 2021	December 31, 2020
Vehicles	\$ 22,441	22,441
Buildings	65,071	65,071
Construction Equipment	36,447	36,447
Mining Equipment	58,646	58,646
	<hr/> 182,605	<hr/> 182,605
Accumulated Depreciation	(178,647)	(177,651)
	<hr/> 3,958	<hr/> 4,954
Land	280,333	280,333
Total Property and Equipment	<hr/> \$ 284,291	<hr/> 285,287

6. PPP Loan

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (the "CARES Act") Act was signed into United States law.

In April 2020, the Company received a loan of \$48,000 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I, Section 1102 and 1106 of the CARES Act. The loan, which was in the form of a promissory note, as amended, dated April 21, 2020 issued by the Company (the "Note"); the Note matures on April 13, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on August 13, 2021. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. Qualifying expenses include payroll costs, costs used to continue group health care benefits, mortgage payments, rent, and utilities. The Company elected to take 24 weeks to spend these funds instead of eight weeks. The Company used the entire loan amount for qualifying expenses, but there is no guarantee that the loan will be forgiven.

On October 21, 2020 the Company completed the Paycheck Protection Program (PPP) loan forgiveness application with Washington Trust Bank. On November 7, 2020, the Company received a notice that the PPP loan was forgiven. Accordingly, the Company recorded PPP loan forgiveness in other income in the Consolidated Statement of Operations for the year ended December 31, 2020.

7. Related Parties

Notes Payable

At March 31, 2021, the Company had notes payable balances of \$66,768 and \$19,808 with Eric Jones and James Collord, respectfully. Eric Jones is the Company's President and Chief Executive Officer and James Collord, the Company's Vice President and Chief Operating Officer, respectively. During the quarter ended March 31, 2021, Mr. Collord was paid \$20,000 reducing his note payable balance. These notes, as amended, stop accruing monthly interest on January 1, 2021 and payment is due on December 31, 2021. Accrued interest payable at both March 31, 2021 and December 31, 2020 was \$46,697 and \$40,834 payable to Eric Jones and James Collord, respectively.

Deferred Compensation

Three of the Company's officers began deferring compensation for services on April 1, 2015. On July 31, 2018, the Company stopped expensing and deferring compensation for the three Company officers in the interest of marketing the SMMI project. As part of the BeMetals agreement (Note 3), the Company resumed compensation for these officers on May 15, 2019. The officers deferred compensation balances at March 31, 2021 and December 31, 2020 represent the balances deferred prior to the BeMetals agreement and are as follows: Eric Jones, President and Chief Executive Officer - \$420,000; Jim Collord, Vice President and Chief Operating Officer - \$420,000; and Larry Thackery, Chief Financial Officer - \$201,500.

Accrued Related Party Liability

The Company engaged Baird Hanson LLP ("Baird"), a company owned by one of the Company's directors, to provide legal services. In 2018 the Company incurred \$65,530 in legal expense with Mr. Baird. At March 31, 2021 and December 31, 2020, the balance due to Baird for prior years' legal services was \$181,685 and \$186,685, respectfully. During the period ended March 31, 2021 the Company paid Baird \$5,000 on the balance due.

Advance from Related Party

Management has advanced funds, and foregone accrued wages to the Company for operating expenses. The balance of these advances and wages at March 31, 2021 and December 31, 2020 was \$35,331. This balance is included in accounts payable and other accrued liabilities on the Consolidated Balance Sheets.

8. 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.

9. Stock Options

The Company has a Stock Incentive Plan (the "SIP") that provides for the grant of stock options, incentive stock options, stock appreciation rights, restricted stock awards, and incentive awards to eligible individuals including directors, executive officers and advisors that have furnished bona fide services to the Company not related to the sale of securities in a capital-raising transaction.

On March 30, 2020, the Company granted 1,630,000 stock options to officers and directors of the Company. The fair value of the options was determined to be \$152,580 using the Black Scholes model. The options are exercisable on or before March 29, 2025 and have an exercise price of \$0.099. The options were fully vested upon grant and the entire fair value was recognized as compensation expense during the quarter ended March 31, 2020.

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

	<u>March 30, 2020</u>
Stock price	\$0.095
Exercise price	\$0.099
Expected volatility	218.6%
Expected dividends	-
Expected terms (in years)	5.0
Risk-free rate	0.39%

No stock options were granted for the quarter ended March 31, 2021.

The following is a summary of the Company's options issued and outstanding under the SIP:

	Shares	Weighted Average Exercise Price
Outstanding and exercisable at December 31, 2019	5,035,000	0.09
Granted	1,630,000	0.099
Expired	(960,000)	(0.06)
Outstanding and exercisable at December 31, 2020	5,705,000	\$0.10
Granted	-	-
Expired	-	-
Outstanding and exercisable at March 31, 2021	<u>5,705,000</u>	<u>\$0.10</u>

The average remaining contractual term of the options outstanding and exercisable at March 31, 2021 was 2.02 years. At March 31, 2021, options outstanding and exercisable had an aggregate intrinsic value of approximately \$361,180 based on the Company's stock price of \$0.16 at March 31, 2021.

10. Leases

The Company renewed its office operating lease on February 1, 2021 for 12 months, but do not anticipate being more than 12 months. Since the remaining lease term at March 31, 2021 is less than one year the Company did not recognize a right to use asset and related lease liability on the balance sheet for the lease renewal. For the quarters ended March 31, 2021 and 2020 the Company paid \$1,332 and \$3,996 in lease payments, respectfully, which was reimbursed by BeMetals under the terms of the Option Agreement.

11. Subsequent Events

On May 04, 2021, the Company sold 2,000,000 of the 10,000,000 common shares held in BeMetals Corp., for a total of \$CAD 795,000 (US \$645,286). These shares were originally received in connection with the 2019 BeMetals Option Agreement. The shares of common stock were sold in an arranged transaction through Canaccord Genuity at a price of \$CAD 0.40 (US \$0.325). This sale meets all the requirements under the terms of the BeMetals Option Agreement.