

THUNDER MOUNTAIN GOLD INC  
Form 10-Q  
August 20, 2012

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

**FORM 10-Q**

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

For the quarterly period ended June 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: 001-08429

**THUNDER MOUNTAIN GOLD, INC.**

(Exact name of Registrant as specified in its charter)

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Nevada  
(State or other jurisdiction of incorporation or organization)

91-1031015  
(IRS identification No.)

**5248 W. Chinden Blvd**  
**Boise, Idaho**  
(Address of Principal Executive Offices)

**83714**  
(Zip Code)

**(208) 658-1037**  
(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 (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, or  a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act)

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 June 30, 2012 : 30,067,549

THUNDER MOUNTAIN GOLD INC.

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**PART I Financial Information****Item 1. Financial Statements****Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Consolidated Balance Sheets***June 30, 2012 and December 31, 2011*

	(Unaudited) June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 634,667	\$ 83
Prepaid expenses and other assets	15,244	20,389
Deferred financing costs	-	91,283
Total current assets	649,911	111,755
Property, equipment and mining claims:		
South Mountain Mines property	357,497	357,497
Equipment, net of accumulated depreciation	6,572	10,851
Mining leaseholds	114,460	86,080
Total property, equipment and mining claims	478,529	454,428
Other assets:		
Deferred financing costs, net of accumulated amortization	-	47,087
<b>Total assets</b>	<b>\$ ,128,440</b>	<b>\$ 613,270</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 94,394	\$ 155,125
Deferred payroll	177,907	120,744
Note payable - related party	5,000	139,786
Conversion option liability	-	48,231
Convertible Note Payable	1,000,000	
Total current liabilities	1,277,301	463,886
Derivative warrant liabilities	703,213	510,893
<b>Total liabilities</b>	<b>1,980,514</b>	<b>974,779</b>

Commitments (See Note 4)

Stockholders' equity (deficit):

Preferred stock; \$0.001 par value, 5,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock; \$0.001 par value; 200,000,000 shares authorized; 30,167,549 and 28,717,549 shares issued and outstanding, respectively	30,168	28,718
Additional paid-in capital	3,643,616	3,095,066
Less: 11,700 shares of treasury stock, at cost	(24,200)	(24,200)
Deficit accumulated prior to 1991	(212,793)	(212,793)
Accumulated deficit during the exploration stage	(4,288,865)	(3,248,300)
Total stockholders' equity (deficit)	(852,074)	(361,509)
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 1,128,440</b>	<b>\$ 613,270</b>

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

**Thunder Mountain Gold,  
Inc.***(An Exploration Stage  
Company)***Consolidated Statements of Operations and Comprehensive Income  
(Loss)***(Unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,		During Exploration Stage 1991 Through June 30, 2012
	2012	2011	2012	2011	
Revenue:					
Royalties, net	\$ -	\$ -	\$ -	\$ -	\$ 328,500
Gain on sale of property and mining claims	-	-	-	-	2,576,112
Total revenue	-	-	-	-	2,904,612
Expenses:					
Exploration expenses	55,185	66,901	96,825	120,737	2,095,712
Legal and accounting Management and administrative	58,321	51,692	87,916	80,370	1,005,171
Directors' fees and professional services	72,342	189,484	151,886	314,465	3,108,178
Depreciation and depletion	-	-	-	-	923,055
Total expenses	1,872	3,065	4,279	6,129	141,271
	187,720	311,142	340,906	521,701	7,273,387
Other income (expense):					
Interest and dividend income	-	6	0	53	283,980
Interest expense	(517,442)	(17,212)	(541,937)	(33,017)	(812,627)
Gain (loss) on fair value of warrant liability	(379,230)	517,065	(192,320)	995,020	1,100,064
Loss on common stock and warrants	-	(7,926)	-	(7,926)	(271,587)
Gain (Loss) on change in fair value of conversion option liability	18,444	-	34,599	-	109,399
Financing expense	-	-	-	-	(17,945)
Gain on foreign currency translation	-	-	-	-	-
Gain on sale of securities	-	-	-	-	166,116

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Impairment of investments	-	-	-	(52,299)
Total other income				
(expense)	(878,228)	- 491,933	(699,658)	954,130 505,101
Net income (loss) before				
income taxes	(1,065,948)	180,791	(1,040,564)	432,429 (3,863,674)
(Provision) for income				
taxes	-	-	-	- (151,496)
Net income (loss)	(1,065,948)	180,791	(1,040,564)	432,429 (4,015,170)
Treasury stock cancelled	-	-	-	(273,694)
<b>Comprehensive income</b>			\$	
<b>(loss)</b>	\$(1,065,948)	\$ 180,791	(1,040,564)	\$ 432,429 \$(4,288,864)
Net income (loss) per				
common				
share-basic and diluted	\$ (0.04)	\$ 0.01	\$ (0.03)	\$ 0.02 \$ (0.26)
Weighted average common				
shares outstanding-basic				
and diluted	30,154,750	27,256,499	29,743,212	27,124,006 16,629,292

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



**Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Consolidated Statements of Cash Flows***(Unaudited)*

	Six Months Ended June 30,		During Exploration Stage 1991 Through June 30, 2012
	2012	2011	
Cash flows from operating activities:			
Net income (loss)	\$(1,040,564)	\$ 432,429	\$ (4,015,170)
Adjustments to reconcile net income (loss) to net cash			
used in operating activities:			
Depreciation and depletion	4,279	6,129	141,271
Common stock, warrants and options issued			
for services	10,000	72,000	815,266
Adjustment for anti-dilution provisions	-	-	86,084
Amortization of directors' fees prepaid			
with common stock	-	-	53,400
Amortization of deferred financing costs	138,370	31,391	259,515
Amortization of loan discount	395,214		495,086
Compensation expense for stock issued	-	-	76,500
Gain on sale of mining claims and other assets	-	-	(2,736,553)
Impairment loss on securities	-	-	52,335
Gain on change in fair value of warrant liability	192,320	(995,020)	(1,100,064)
Loss on common stock and warrants	-	7,926	271,587
Gain on change in fair value of conversion option			
liability	(48,231)		(123,031)
Financing expense	-		17,945
Change in:			
	5,144	5,660	(15,246)

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Prepaid expenses and other assets			
Receivables	-		124,955
Deferred financing costs			(28,500)
Accounts payable and other liabilities	(3,568)	46,137	278,734
Net cash used by operating activities	(347,036)	(393,348)	(5,345,886)
Cash flows from investing activities:			
Proceeds from sale of property and mining claims	-	-	5,500,000
Purchase of Dewey Mining Co. mining claims	-	-	(2,923,888)
Purchase of investments	-	-	(354,530)
Purchase of South Mountain Mines	-	-	(357,497)
Purchase of mining leaseholds	(28,380)	(3,380)	(114,460)
Purchase of equipment	-	-	(168,577)
Proceeds from disposition of investments	-	-	642,645
Proceeds from disposition of equipment	-	-	49,310
Net cash provided (used) by investing activities	(28,380)	(3,380)	2,273,003
Cash flows from financing activities:			
Proceeds from sale of common stock and warrants, net	150,000	-	2,400,406
Proceeds from exercise of stock options and warrants	-	-	508,600
Acquisition of treasury stock	-	-	(376,755)
Borrowing on related party note payable	5,000	110,000	576,500
Payments on related party note payable	(145,000)	-	(567,000)
Borrowing on notes payable	1,000,000	-	1,050,000
Payments on note payable	-	-	(50,000)
Net cash provided by financing activities	1,010,000	110,000	3,541,751
Net increase (decrease) in cash and cash equivalents	634,584	(286,728)	468,868
Cash and cash equivalents, beginning of period	83	298,232	165,799
<b>Cash and cash equivalents, end of period</b>	<b>\$ 634,667</b>	<b>\$ 11,504</b>	<b>\$ 634,667</b>

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

**Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Consolidated Statements of Cash Flows (continued)***(Unaudited)*

	Six Months Ended June 30,		During Exploration Stage 1991 Through June 30, 2012
	2012	2011	
Supplemental disclosures of cash flow information:			
Non-cash investing and financing activities:			
Stock issued to acquire equipment from related party	\$ -	\$ -	\$ 11,850
Stock issued for mining contract	\$ -	\$ -	\$ 50,000
Stock issued for payment of accounts payable	\$ -	\$ -	\$ 29,250
Stock issued for payments on related party note payable	\$ -	\$ -	\$ 4,500
Fair value of warrants issued in private placement classified as liabilities	\$ -	\$ 178,813	\$ 1,795,587
Note proceeds allocated to conversion option at inception	\$ -	\$ -	\$ 123,031
Stock issued for deferred compensation	\$ -	\$ -	\$ 21,000

Beneficial conversion feature in note payable	\$ 375,000	\$ -	\$ 375,000
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*The accompanying notes are an integral part of these consolidated financial statements.*

**Thunder Mountain Gold, Inc.**

*(An Exploration Stage Company)*

**Notes to 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

The unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete 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 financial statements have been included. Operating results for the six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012.

For further information, refer to the financial statements and footnotes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Going Concern

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 incurred losses since its inception and does not have sufficient cash at June 30, 2012 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. Additionally, the current capital markets and general economic conditions in the United States are significant obstacles to raising the required funds. 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.

**Thunder Mountain Gold, Inc.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**1.**

**Summary of Significant Accounting Policies and Business Operations, continued**

Reclassifications

Certain reclassifications have been made to conform prior year's data to the current presentation. These reclassifications have no effect on the results of reported operations or stockholders' equity (deficit).

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. The Company has evaluated all tax positions for open years and has concluded that it has no material unrecognized tax benefits. Management estimates their effective tax rate for the year ended December 31, 2012 will be 0%.

Fair Value Measures

ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 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 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.

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.

Our financial instruments consist principally of cash and warrant liabilities. The table below sets forth our assets and liabilities measured at fair value whether recurring or non-recurring and basis and the fair value calculation input hierarchy level that we have determined applies to each asset and liability category.

	Balance	Balance	Input
	June 30, 2012	December 31, 2011	Hierarchy level
Recurring:			
Cash and cash equivalents	\$ 634,667	\$ 83	Level 1
Derivative warrant liabilities	\$ (703,213)	\$ (510,893)	Level 2
Conversion option liability	\$ -	\$ (48,231)	Level 2



**Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****1.****Summary of Significant Accounting Policies and Business Operations, continued**Fair Value Measures, continued

For the warrant liabilities which are measured at fair value on a recurring basis, the Company uses the Black-Scholes valuation model with the following inputs as of June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Stock price	\$0.16	\$0.10
Exercise price	\$0.16 - \$0.195	\$0.19 - \$.26
Expected term	0.41 - 1.4 yrs	0.84 - 1.82 yrs
Estimated volatility	216% - 248%	218% - 250%
Risk-Free interest rate	0.21% - 0.33%	0.12% - 0.25%
Expected dividend yield	-	-

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 warrants to purchase the Company's common stock.

As of June 30, 2012 and 2011, the remaining potentially dilutive common stock equivalents not included in the calculation of diluted earnings per share as their effect would have been anti-dilutive are:

<u>For periods ended</u>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Convertible debt	12,500,000	-
Stock options	2,000,000	-
Warrants	8,616,271	8,313,271
<b>Total possible dilution</b>	<b>23,116,271</b>	<b>8,313,271</b>

Accordingly, only basic EPS is presented.

**2.**

**Note Payable**

On April 30, 2012 the Company executed a convertible promissory note payable to Idaho State Gold Company, LLC ( ISGC ) in the principal amount of \$1,000,000. The note bears interest at the rate of eight percent (8%) per annum. The due date of the note was the earlier of June 30, 2012 or the date that is fourteen business days following the date on which the parties mutually agree to not enter into a joint venture agreement. Prior to maturity, the parties verbally agreed to an additional extension of the maturity date. As of the date of the release of these financial statements, the note is not considered to be in default.

**Thunder Mountain Gold, Inc.**

*(An Exploration Stage Company)*

**Notes to Consolidated Financial Statements**

**2.**

**Note Payable, continued**

Under the terms of the note, if ISGC and Company do not negotiate and execute a definitive joint venture agreement and complete their respective initial contributions prior to the maturity date of the Convertible Note, then at the election of ISGC, all or any portion of the outstanding principal and accrued interest can be converted into shares of the Company's common stock at the conversion price of \$.08 USD per share. Any balance not so converted would be immediately due and payable. The convertible note required that the Company grant ISGC a first priority security interest over all of the Company's assets

The Company has recognized interest expense related to this note in the amount of \$13,370 during the six months ended June 30, 2012.

The price for the Company's common stock exceeded the \$0.08 conversion price stated in the loan on the day funds were advanced under the loan. Management determined that the favorable exercise price represents a beneficial conversion feature. Using the intrinsic value method at the loan date a total discount of \$375,000 was recognized on the loan. As the initial loan maturity date was June 30, 2012, as of that date the full amount of the discount has been amortized as interest expense.

**3.**

**Stockholders' Equity**

The Company's common stock is at \$0.001 par value with 200,000,000 shares authorized. The Company also has 5,000,000 authorized shares of preferred stock with a par value of \$0.001. No preferred shares have been issued.

On January 2, 2012, the Company entered into a subscription agreements with certain individual whereby the company will sell up to 4,000,000 units at US\$0.12 per unit. Each unit consists of one share of common stock, and one-half warrant exercisable for 2 years at \$0.20. As of June 30, 2012, the Company has issued 1,250,000 shares under this agreement.

The following is a summary of warrants as of June 30, 2012:

	<b>Share Equivalent Warrants</b>	<b>Exercise Price</b>	<b>Expiration Date</b>
<b>Warrants:</b>			
Warrants issued September 24, 2010	6,683,271	\$ 0.24	September 30, 2013
Warrants issued June 26, 2011	1,000,000	0.19	June 26, 2013
Warrants issued September 30, 2011	200,000	0.19	September 30, 2013
Warrants issued October 28, 2011	108,000	0.20	October 28, 2013
Warrants issued February 17, 2012	625,000	0.20	February 17, 2014
Total warrants outstanding at June 30, 2012	8,616,271	\$ 0.23	

**Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****4.****Commitments**

On November 30, 2011, ( Effective Date ) Thunder Mountain Resources, Inc., entered into a mining lease with option to purchase with Richard C. and Carol Ann Fox for the exclusive rights to conduct exploration, feasibility work, development, mining and processing of minerals on certain mining claims in Lemhi County, Idaho. The initial term is for thirty years and the lease grants successive, additional fifteen year terms so long as the Company is in compliance with the lease. The Company is obligated to pay advance minimum royalty payments, the first of which was in the amount of \$25,000 and was paid upon execution of the lease. An additional payment of \$25,000 was made in the six months ended June 30, 2012 in accordance with the lease terms. Additional payments are due as follows:

Amount	Due Date
\$ 50,000	On or before the 1st anniversary of the Effective Date
75,000	On or before the 2nd anniversary of the Effective Date
100,000	On or before the 3rd anniversary of the Effective Date
100,000	On or before the 4th anniversary of the Effective Date and each anniversary date thereafter

All advance minimum royalties paid will be credited against any production royalties that accrue. If no minerals are produced from the premises, the lessor has no obligation to refund the advance minimum royalties.

On March 21, 2011, the Company signed an exploration agreement with Newmont Mining Corporation 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 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. The Company has expended \$13,270 on this project to date.

5.

### **Related Party Transactions**

At various times throughout 2011 and January 2012 as approved under Board resolution dated July 11, 2011 (the Resolution ), Mr. Collord, the Company's Vice-President and Chief Operations Officer, made loans of various amounts to the Company totaling \$155,000 to fund the operational needs of the Company, \$150,000 of which has been repaid, leaving a loan balance of \$5,000 as of June 30, 2012. The Resolution specifies a maturity date of January 7, 2012, subsequently amended to May 31, 2012, and allowed the conversion of any portion of the note at any time into shares of common stock at a price equal to the lower of the last private placement, or the previous 30-day rolling average of the closing price of the stock.

Management has determined that the conversion option requires separate valuation and bifurcation under ASC 815, and determined fair value using a Black-Scholes valuation model. The total initial fair value of the conversion options was \$126,151 and was separated from the debt host. At initial recording it was determined that one of the loans conversion options had a fair value which exceeded the loan amount by \$17,945. The excess was charged to the statement of operations in 2011 as a financing expense from conversion option.

**Thunder Mountain Gold, Inc.***(An Exploration Stage Company)***Notes to Consolidated Financial Statements****5.****Related Party Transactions, continued**

On May 31, 2012, the notes were paid in full. Accordingly, the conversion option derivative liability was first marked to fair value at that date using a Black-Scholes valuation model with inputs as per the following table. As such, a gain on the change in fair value of \$18,444 was recorded. The remaining liability was then eliminated with a charge of \$15,000 to additional paid-in capital.

Inputs to the Black-Scholes valuation model as of May 31, 2012:

Stock price	\$0.07
Exercise price	\$0.10
Expected term	0.0897 (yrs)
Estimated volatility	281.48%
Risk-free interest rate	0.07%
Expected dividend yield	-

## **Item 2. Management's Discussion and Analysis or Plan of Operation**

*FORWARD LOOKING STATEMENTS: The following discussion may contain forward-looking statements that involve a number of risks and uncertainties. Factors that could cause actual results to differ materially include the following: inability to locate property with mineralization, lack of financing for exploration efforts, competition to acquire mining properties; risks inherent in the mining industry, and risk factors that are listed in the Company's reports and registration statements filed with the Securities and Exchange Commission.*

*Management's discussion and analysis is intended to be read in conjunction with the Company's unaudited financial statements and the integral notes thereto for the quarter ending June 30, 2012. The following statements may be forward-looking in nature and actual results may differ materially.*

The following Management's Discussion and Analysis of Financial Condition and Results of Operation ( MD&A ) is intended to help the reader understand our financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying integral notes ( Notes ) thereto. The following statements may be forward-looking in nature and actual results may differ materially.

The Company employed two full-time budgeted salaried management during the quarter, and was able to meet its immediate financial obligations. The Company maintains its office in the Boise, Idaho area in Garden City. This is the primary headquarters for the South Mountain Project.

### **South Mountain Project, Owyhee County, Idaho (South Mountain Mines, Inc.)**

The Company's land package at South Mountain consists of a total of approximately 1,158 acres, consisting of (i) 17 patented claims (326 acres) the Company owns outright; (ii) lease on private ranch land (542 acres); and, (iii) 21 unpatented lode mining claims on BLM managed land (290 acres). The Company is negotiating for additional private land surrounding the existing land package. We also have applied for leases on Idaho State Lands for approximately 3,100 acres, expected to be finalized during 2012. All holdings are located in the South Mountain Mining District, Owyhee County, Idaho.

The property is located approximately 70 air miles southwest of Boise, Idaho and approximately 24 miles southeast of Jordan Valley, Oregon. It is accessible by highway 95 driving south to Jordan Valley Oregon, then by traveling southeast approximately 22 miles back into Idaho, via Owyhee County road that is dirt and improved to within 4 miles



of the base camp. The last 4 miles up the South Mountain Mine road are unimproved county dirt road. The property is accessible year-round to within 4 miles of the property, where the property is accessible from May thru October without plowing snow. There is power to within 4 miles of the site as well. Power generation by generator is required at this time. The climate is considered high desert. The Company has water rights on the property, and there is a potable spring on the property that once supplied water to the main camp.

A detailed list of the claims is as follows:

**Patented land owned by Thunder Mountain Gold. Seventeen (17) patented mining claims totaling 326 acres:**

Patent No. 32995 dated September 17, 1900 (Mineral Survey No. 1446)

**Illinois  
Michigan  
New York  
Tennessee  
Oregon**

**Massachusetts  
Washington  
Maine  
Idaho  
Vermont**

Patent No. 32996 dated September 17, 1900 (Mineral Survey No. 1447)

**Texas**  
**Florida**  
**Alabama**

**Virginia**  
**Mississippi**

Patent No. 1237144 dated October 27, 1964 (Mineral Survey No. 3400)

**Queen**

**Kentucky**

**Unpatented Ground 100% controlled by Thunder Mountain Gold. Twenty one (21) unpatented mining claims totaling 290 acres:**

<b>Claim Name</b>	<b>Owyhee County Instrument No.</b>	<b>BLM: IMC Serial No.</b>
SM-1	262582	192661
SM-2	262578	192662
SM-3	262581	192666
SM-4	262579	192665
SM-5	262580	192669
SM-6	262577	192664
SM-7	262576	192663
SM-8	262575	192670
SM-9	262574	192671
SM-10	262573	192668
SM-11	262572	192672
SM-12	262571	192667
SM-13	262570	192673
SM-14	262569	192674
SM-15	266241	196559
SM-16	266242	196560
SM-17	266243	196561
SM-18	266244	196562
SM-19	266245	196563
SM-20	266246	196564
SM-21	266247	196565

The claim maintenance fees and assessment for these claims is financed by the Company through sales of unregistered common stock.

**The leased private land also includes all surface rights. There is a 3% net smelter return royalty payable to the landowners. The parcels are leased for 20 years with the right to renew and the option to purchase outright. Annual expenses for the leases and claims are as follows:**

<b>Owner</b>	<b>Agreement Date</b>	<b>Amount</b>	<b>Acres</b>
Lowry	October 10, 2008	\$20/acre	376
		\$30/acre starting in 7th year	
Acree	June 20, 2008	\$20/acre	113
		\$30/acre starting in 7th year	
Herman	April 23, 2009	\$20/acre	56
		\$30/acre starting in 7th year	

The historic production peaked during World War II when, base on smelter receipts, the production of direct shipped ore totaled 53,653 tons containing 3,118 ounces of gold, 566,439 ounces of silver, 13,932 pounds of copper, 2,562,318 pounds of lead and 15,593,061 pounds of zinc. In addition to the direct-ship ore, a flotation

mill was constructed and operated during the late-1940s and early-1950s. There is no production information available on the tons, grade and concentrate associated with that phase of the operation, but it is estimated that between 30,000 and 40,000 tons of ore were mined and process based on the estimated tonnage of mill tailings.

South Mountain Mines controlled the patented claims from 1975 to the time the Company purchased the entity in 2007. They conducted extensive exploration work including extending the Sonneman Level by approximately 1,500 feet to intercept the downdip extension of the Texas sulfide mineralization mined on the Laxey Level some 300 feet above the Sonneman. High grade sulfide mineralization was intercepted on the Sonneman Extension. In 1985 they did a feasibility study based on polygonal ore blocks exposed in the underground workings and drilling. This resulted in a historic resource of approximately 470,000 tons containing 23,500 ounces of gold, 3,530,000 ounces of silver, 8,339,000 pounds of copper, 13,157,000 pounds of lead and 91,817,000 lbs of zinc. Although they determined positive economics, the project was shut down and placed into care and maintenance.

In 2008, the Company engaged Kleinfelder West, Inc., a nationwide engineering and consulting firm, to complete a technical report Resources Data Evaluation, South Mountain Property, South Mountain Mining District, Owyhee County, Idaho . The technical report was commissioned by Thunder Mountain Resources, Inc. to evaluate all the existing data available on the South Mountain property. Kleinfelder utilized a panel modeling method using this data to determine potential mineralized material remaining and to make a comparison with the resource determined by South Mountain Mines in the mid-1980s.

Additional drilling and sampling will be necessary before the resource can be classified as a mineable reserve, but Kleinfelder West's calculations provided a potential resource number that is consistent with South Mountain Mines (Bowes 1985) reserve model.

During the 2008 field season two core drill holes were drilled to test the downdip extension of the sulfide mineralization in the main mine area, one on the DMEA2 ore shoot and one on the Texas ore shoot. The DMEA 2 target was successful, with two distinct sulfide zones totaling 30 feet being encountered in an overall altered and mineralized intercept of approximately 73 feet. The samples over the entire intercept were detail sampled over the entire 73 feet resulting in a total of 34 discrete sample intervals ranging from 0.5 to 3.7 feet. The samples cut at the Company's office in Garden City, Idaho and Company personnel delivered the samples to ALS Chemex preparation lab in Elko, Nevada. The analytical results showed two distinct zones of strong mineralization.

	Gold	Silver			
Interval	Fire Assay	Fire Assay	Zinc	Copper	Lead
Weighted Average	(ounce per ton)	(ounce per ton)	(%)	(%)	(%)

657 - 669.5

(12.5 feet)	0.066	1.46	7.76	0.276	0.306
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687 704.5

(17.5 feet)	0.129	1.89	2.18	0.183	0.152
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These intercepts are down dip approximately 300 feet below of the DMEA 2 mineralized zone encountered in Sonneman Level tunnel, and 600 feet below the DMEA 2 zone on the Laxey Level tunnel. The tenor of mineralization the DMEA 2 on the Sonneman is similar to that intercepted in the core hole, including two distinct zones with differing grades.

The second drill hole, TX-1, was designed to test the Texas Ore Shoot approximately 300 feet down dip of the Sonneman Level. The small core hole achieved a depth of 1250 feet, but deviated parallel to the bedding and the targeted carbonate horizon was not intercepted.

Late in 2009, the Company contracted with Gregory P. Wittman (a Qualified Person under Canadian regulations) of Northwestern Groundwater & Geology to incorporate all the new drill and sampling data into an

NI 43-101 Technical Report. This report was needed as part of the Company's efforts to obtain a listing on the TSX Venture Exchange in 2010. The NI 43-101 can be reviewed on the Company website at [www.thundermountaingold.com](http://www.thundermountaingold.com), or on [www.SEDAR.com](http://www.SEDAR.com).

A multi-lithic intrusive breccia outcrop was identified and sampled in 2008 on property leased by the Company. This large area, approximately one mile long and one-half a mile wide, is located several thousand feet south of the main mine area. The intrusive breccia is composed of rounded to sub-rounded fragments of altered intrusive rock and silicified fragments of altered schist and marble. Initial rock chip samples from the outcrop area ranged from 0.49 ppm to 1.70 ppm gold, and follow-up outcrop and float sampling in 2009 yielded gold values ranging from 0.047 ppm to 5.81 ppm. A first pass orientation soil survey completed in 2008 was conducted near the discovery breccia outcrop at a spacing of 100 feet over a distance of 800 feet east/west and 1,000 feet north/south. The soil assays ranged from a trace to 0.31 ppm Gold. Surface mapping indicates that the intrusive breccia covers an area of approximately 5,000 feet x 1,500 feet.

The 2010 drilling focused primarily the breccia gold zone. Centra Consulting completed the storm water plan needed for the exploration road construction on private land, and it was accepted by the Environmental Protection Agency. Road construction started on August 1, 2010 by Warner Construction and a total of 3.2 miles of access and drill site roads were completed through the end of September.

A campaign of road cut sampling was undertaken on the new roads as they were completed. Three sets of samples were obtained along the cut bank of the road. Channel samples were taken on 25-foot, 50-foot or 100-foot intervals, depending upon the nature of the material cut by the road with the shorter spaced intervals being taken in areas of bedrock. A total of 197 samples were collected and sent to ALS Chemex labs in Elko, Nevada. A majority of the samples contained anomalous gold values and in addition to confirming the three anomalies identified by soils sampling, the road cuts added a fourth target that yielded a 350-foot long zone that averaged 378 parts per billion gold (0.011 ounce per ton). Follow up sampling on a road immediately adjacent to this zone yielded a 100-foot sample interval that ran 5.91 parts per million gold (0.173 ounce per ton).

Drilling on the intrusive breccia target commenced on October 1, 2010 with a Schramm reverse circulation rig contracted through Drill Tech of Winnemucca, Nevada. Five widely-spaced holes on the four significant gold anomalies in the intrusive breccia target were completed with the following results:

#### **Intrusive Breccia 2010 Drill Results**

<b>Hole Number</b>	<b>Depth (ft)</b>	<b>Average Gold Value (opt) Entire Hole</b>	<b>Highest Grade 5 ft Interval (opt)</b>	<b>Comments</b>
LO-1	625	0.0034	0.015	All 5 foot intervals had detectable gold. Discovery outcrop area highly altered intrusive breccia with sulfides.
LO-2	845	0.001	0.016	95% of the intervals had detectable gold. Highly altered intrusive breccia with sulfides.
LO-3	940	0.0033	0.038	95% of the intervals had detectable gold. Mixed altered intrusive breccia and skarn; abundant sulfides (15 to 20% locally). West end of anomaly.

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LO-4	500	0.002	0.0086	Entire hole had detectable gold. Altered intrusive breccia with sulfides. East end of anomaly.
LO-5	620	0.0037	0.036	Entire hole had detectable gold. Altered intrusive breccia with sulfides. East end of anomaly.

Management believes that the first-pass drill results from the intrusive breccia target proves the existence of a significant gold system in an intrusive package that is related to the polymetallic mineralization in the carbonate in the historic mine area. Additional work is planned for 2011, including a draped aeromagnetic, resistivity and IP surveys to isolate potential feeder structures and to evaluate the contact between the metasediments and the gold-bearing intrusive.

In addition to the drilling completed in on the Intrusive Breccia target, two reverse circulation drill holes were completed targeting the down dip extension of the polymetallic zones in an effort to confirm continuity of the ore zones to a greater depth. Vertical drill hole LO 6 was placed to intercept the down dip extension of the DMEA 2 ore shoot exposed on both the Laxey and Sonneman levels of the underground workings, as well as the 2008 core hole drilled by the Company that extended the zone 300 feet down dip of the Sonneman level. Drillhole LO 6 cut a thick zone of skarn alteration and polymetallic mineralization at 760 feet to 790 feet. The intercept contained 30 feet of 3.55% zinc, 1.87 ounce per ton silver, and 0.271% copper. Internal to this zone was 15 feet of 0.060 OPT gold and 20 feet of 0.21% lead. Importantly, this intercept proves the continuity of the ore zone an additional 115 feet down dip of the 2008 drill hole, or 415 feet below the Sonneman level. It remains open at depth.

Drill hole LO-7 was placed to test the down dip extension of the Laxey ore zone, the zone that produced a majority of the silver, zinc, copper, lead and gold during the World War II period. A portion of the ore zone was intercepted approximately 180 feet below the bottom of the Laxey Shaft which mined the zone over an 800-foot length. This hole intercepted 25 feet (600-625 feet) of 8.56% zinc and 1.15 ounce per ton (opt) silver. This intercept proves the extension of the Laxey ore zone approximately 120 feet below the maximum depth previously mined when over 51,000 tons of sulfide ore were mined and direct shipped to the Anaconda smelter in Utah. The grade of this ore mined over the 800 feet of shaft and stope mining was 15% zinc, 10 opt silver, 0.06 opt gold, 2.3% lead and 0.7% copper.

Management is encouraged by both of these intercepts as they prove the continuation of the replacement sulfide mineralized ore shoots at depth. Detailed follow-up core drilling will be needed to better define the potential of the ore shoots at depth. The ongoing exploration field work is financed by the Company through sales of unregistered common stock. Future work will be funded in the same manner, or through a strategic partnership with another mining company.

This property is without known reserves and the proposed program is exploratory in nature according to Instruction 3 to paragraph (b)(5) of Industry Guide 7. There are currently no permits required for conducting exploration in accordance with the Company's current board approved exploration plan.

### **Trout Creek Claim Group, Lander County, Nevada**

The Trout Creek pediment exploration target is located in Lander County, Nevada in T.29N. R44E. The property consists of 60 unpatented mining claims totaling approximately 1,200 acres that are located along the western flank of the Shoshone Range in the Eureka-Battle Mountain mineral trend.

During June 2012 a 189 station ground gravity survey was completed by Magee Geophysical Services LLC over the eastern portion of the Trout Creek joint venture area. Jim Wright of Wright Geophysical, Inc. interpreted the survey data and formalized it in the accompanying report. This interpretive report incorporated the relevant geophysical data supplied to Thunder Mountain Gold by Newmont



The purpose of the survey was to assist in determining the depth to bedrock in the target area, and to see if there is any indication of the paleo-channel patterns in the bedrock that would mimic the mineralized trend evident in the lower slopes of the east side of the Shoshone Range. Both goals were achieved and the target within Section 14 was enhanced significantly. The Wright report details these findings and makes recommendations.

Initial drill targets can be placed based on the findings of this survey with the goal of testing the bedrock below the estimated 150m of valley-fill gravel along the trend of the mineralized structure at or near the previously identified major structural intersection in the pediment.

The survey covered a portion of public land Section 24 lode claims controlled by Barrick Gold; permission was granted to conduct the survey by Kevin Creel of Barrick and the raw data covering their claims will be provided to them.

All those certain unpatented lode claims situated in Lander County, Nevada, more particularly described as follows below:

<u>Name of Claim</u>	<u>Lander Co. Doc. No.</u>	<u>BLM NMC No.</u>
TC-1	0248677	965652
TC-2	0248678	965653
TC-3	0248679	965654
TC-4	0248680	965655
TC-5	0248681	965656
TC-6	0248682	965657
TC-7	0248683	965658
TC-8	0248684	965659
TC-9	0248685	965660
TC-10	0248686	965661
TC-11	0248687	965662
TC-12	0248688	965663
TC-31	0248707	965682
TC-32	0248708	965683
TC-51	0248727	965702
TC-52	0248728	965703
TC-53	0248729	965704
TC-54	0248730	965705
TC-55	0248731	965706



<u>Name of Claim</u>	<u>Lander Co. Doc. No.</u>	<u>BLM NMC No.</u>
TC-56	0248732	965707
TC-57	0248733	965708
TC-58	0248734	965709
TC-59	0251576	988946
TC-60	0251577	988947
TC-61	0251578	988948
TC-62	0251579	988949
TC-63	0251580	988950
TC-64	0251581	988951
TC-65	0251582	988952
TC-66	0251583	988953
TC-67	0251584	988954
TC-68	0251585	988955
TC-69	0251586	988956
TC-70	0251587	988957
TC-71	0251588	988958
TC-72	0251589	988959
TC-73	0251590	988960
TC-74	0251591	988961
TC-75	0251592	988962
TC-76	0251593	988963
TC-77	0251594	988964
TC-78	0251595	988965

Name of Claim	Lander Co. Doc. No.	BLM NMC No.
TC-79	0251596	988966
TC-80	0251597	988967
TC-81	0251598	988968
TC-82	0251599	988969
TC-83	0251600	988970
TC-84	0251601	988971
TC-85	0251602	988972
TC-86	0251603	988973
TC-87	0251604	988974
TC-88	0251605	988975
TC-89	0251606	988976
TC-90	0251607	988977
TC-91	0251608	988978
TC-92	0251609	988979
TC-93	0251610	988980
TC-94	0251611	988981
TC-95	0251612	988982
TC-96	0251613	988983

The Trout Creek property is located approximately 155 air miles northeast of Reno, Nevada, or approximately 20 miles SW of Battle Mountain, Nevada, in Sections 10, 11, 14, 16, 21, 22, 27; T.29N.; R.44E. Mount Diablo Baseline & Meridian, Lander County, Nevada. Latitude: 40 23 36 North, Longitude: 117 00 58 West. The property is accessible by traveling south from Battle Mountain Nevada on state highway 305, which is paved. After traveling approximately 20 miles, turn east off the highway on an unimproved public dirt road, and travel approximately 2 miles to the claims. The property is generally accessible year round. There is no power, no water other than seasonal surface precipitation, and there are no improvements on the property.

The 60 unpatented claims are 100% owned by Thunder Mountain Gold, and located along a northwest structural trend which projects into the Battle Mountain mining district to the northwest and into the Goat Ridge window and the Gold Acres, Pipeline, and Cortez area to the southeast. Northwest trending mineralized structures in the Battle Mountain mining district are characterized by elongated plutons, granodiorite porphyry dikes, magnetic

lineaments, and regional alignment of mineralized areas. The Trout Creek target is located at the intersection of this northwest trending mineral belt and north-south trending extensional structures.

The Trout Creek target is based on a regional gravity anomaly on a well-defined northwest-southeast trending break in the alluvial fill thickness and underlying bedrock. Previous geophysical work in the 1980s revealed an airborne magnetic anomaly associated with the same structure, and this was further verified and outlined in 2008 by Company personnel using a ground magnetometer. The target is covered by alluvial fan deposits of unknown thickness shed from the adjacent Shoshone Range, a fault block mountain range composed of Paleozoic sediments of both upper and lower plate rocks of the Roberts Mountains thrust. The geophysical anomaly could define a prospective and unexplored target within a well mineralized region.

The ongoing exploration field work, including claim maintenance and assessment, is financed by the Company through sales of unregistered common stock funded by the Company through private placements with accredited investors. Future work will be funded in the same manner, or through a strategic partnership with another mining company. The Company is attempting to consolidate the land package to cover a larger area of the positive geophysical target in the pediment by acquiring and/or joint venturing adjoining mineral property. There are currently no environmental permits required for the planned exploration work on the property. In the future, a notice of intent may be required with the Bureau of Land Management. This property is without known reserves and the proposed program is exploratory in nature according to Instruction 3 to paragraph (b)(5) of Industry Guide 7.

#### **Clover Mountain Claim Group, Owyhee County, Idaho**

The Company's Clover Mountain property is located approximately 60 air miles SW of Boise, Idaho and approximately 30 miles SW of Grandview, Idaho in Sections 24, 25; T.8S.; R.1W. , and Sections 19, 30; T.8S.; R.1E. Boise Meridian, Owyhee County, Idaho. Latitude: 42 42 34 North Longitude: 116 24 10 West

Access to the property is by traveling one mile southeast on paved state highway 78. Take the Mud Flat road to the south, and travel approximately 25 miles on improved dirt road to the property. The property is on the west next to the Mud Flat Road. The landscape is high desert, with sagebrush and no trees. There is no power, no water other than seasonal surface precipitation, and there are no improvements on the property.

#### **LIST of UNPATENTED MINING CLAIMS at Clover Mountain**

<b>CLAIM</b>	<b>OWYHEE COUNTY INSTRUMENT #</b>	<b>BLM# / (IMC)</b>
PC-1	259673	190708
PC-2	259672	190709
PC-3	259671	190710
PC-4	259670	190711
PC-5	259669	190712
PC-6	259668	190713
PC-7	259667	190714
PC-8	259666	190715
PC-9	259665	190716
PC-10	259664	190717
PC-11	259663	190718
PC-12	259662	190719
PC-13	259661	190720

<b>CLAIM</b>	<b>OWYHEE COUNTY INSTRUMENT #</b>	<b>BLM# / (IMC)</b>
PC-14	259660	190721
PC-15	259659	190722
PC-16	259658	190723
PC-17	259657	190724
PC-18	259656	190725
PC-19	259655	190726
PC-20	259654	190727
PC-21	259653	190728
PC-22	259652	190729
PC-23	259651	190730
PC-24	259650	190731
PC-25	259649	190732
PC-26	259648	190733
PC-27	259647	190734
PC-28	259646	190735
PC-29	259645	190736
PC-30	259644	190737
PC-31	259643	190738
PC-32	259642	190739
PC-33	259641	190740
PC-34	259640	190741
PC-35	259639	190742
PC-36	259638	190743
PC-37	259637	190744
PC-38	259636	190745
PC-39	259635	190746
PC-40	259634	190747

These Claims are 100% owned by Thunder Mountain Gold Inc.

A geologic reconnaissance program in the fall of 2006 identified anomalous gold, silver, and other base metals in rock chips and soils at Clover Mountain. In February 2007 the Company located the Clover Mountain claim group consisting of 40 unpatented lode mining claims totaling approximately 800 acres. Mineralization appears to be associated with stockwork veining in a granitic stock which has been intruded by northeast and northwest-trending rhyolitic dikes. The property is overlain by locally silicified rhyolitic tuff.

Follow-up rock chip sampling within the area of the anomaly has identified quartz veining with gold values ranging from 3.6 part per million (ppm) to 16.5 ppm. A soil sample program consisting of 215 samples was conducted on



200 x 200 grid spacing which defined two northeast trending soil anomalies with gold values ranging from 0.020 ppm to 0.873 ppm Au. The gold anomalies are approximately 1,000 in length and approximately 300 in width. The gold anomalies are associated with northeast trending structures with accompanying quartz stockwork veining in an exposure of Cretaceous/Tertiary granite. A 2,500 base metal soil anomaly is observed trending northwest proximal to rhyolite and rhyodacitic dikes which intrude the granitic stock. No significant work was completed on the claim group in 2010, but additional field work is warranted in the future that may include backhoe trenching and sampling in the significantly anomalous area followed by exploration drilling.

During brief field work in 2010, the presence of visible free gold was noted by panning in the area of the strong soil anomaly. The ongoing exploration field work, including claim maintenance and assessment fees, is funded

by the Company through private placements with accredited investors. Future work will be funded in the same manner, or through a strategic partnership with another mining company.

There are currently no environmental permits required for the planned exploration work on the property. In the future, a notice of intent or plan of operations may be required with the Bureau of Land Management. This property is without known reserves and the proposed program is exploratory in nature according to Instruction 3 to paragraph (b)(5) of Industry Guide 7.

### **Results of Operations:**

The Company had no revenues and no production for the three months ended June 30, 2012 and 2011. Expenses for the three months ended June 30, 2012 decreased by \$123,422 or 39%, compared with \$311,142 for the three months ended June 30, 2011. The decrease is a result of lower management and administrative expenses while the company focused on financing and joint venture activities. Exploration expense for the quarter decreased to \$55,185, as management focused on financing, and the completion of the South Mountain Joint Venture with Idaho State Gold. This exploration expense was mainly attributable to the geophysical study completed at Trout Creek, Nevada. Management and administrative expenses decreased by \$117,142 or 62% to \$72,342 for the quarter. There were no directors fees during the quarter. The Company experienced professional fees during the quarter (legal and accounting) of \$58,321, which is approximately the same as they were one year ago for the quarter ended June 30, 2011.

Total other expense for the three months ended June 30, 2012 was \$878,228, a reduction of \$1,370,161 or 278% from total other income of \$491,933 over the same period as last year. The decrease in other income is primarily due to the lower gain recognized on the fair value of the warrant liability recorded on the balance sheet, and interest expense during the third quarter of 2012.

### **Liquidity and Capital Resources:**

On June 30, 2012, the Company had total current liabilities of \$1,277,301. Current liabilities increased by \$813,415 compared to year end December 31, 2011 primarily due to the promissory note related to the South Mountain Joint Venture, which is due to convert to cash once the South Mountain JV is finalized.

Total liabilities increased during the quarter due to an increase from the promissory note above, and in the fair value of the stock purchase warrants issued in private placements completed during 2010 and 2011. The Company has accounted for the warrants as derivative instruments which have been valued using a Black Scholes fair value model. The Company recognized a long-term liability of \$703,213 related to the warrants at the date of issuance and has recognized a loss of \$192,320 on the warrants during the six months ended June 30, 2012, as a result of a decrease in fair value of the warrants between December 31, 2011, and the end of the first half of 2012.

For the six month period ended June 30, 2012, net cash used by operating activities was \$347,036, consisting of our year to date net loss of \$1,040,564, less non non-cash expenses for depreciation, amortization of deferred financing costs, changes in the fair value of the warrant liability and accounts payable and other accrued liabilities. This compares with \$393,348 used by operating activities for the six months ended June 30, 2011. Cash flows from investing activities used \$28,380 related to the purchase of mining claims, and \$1,010,000 was provided by financing activities for the six month period ended June 30, 2012.

We are an exploration stage company and have incurred losses since our inception. The notes to our financial statements for the year ended December 31, 2011, together with the opinion of our independent auditors included going concern explanatory paragraphs.

*Management actions in addressing the going concern :*

Management believes that the Company currently has cash sufficient to support an exploration program as outlined in Managements Discussion & Analysis above based on the following:

.

As of August 15, 2012, the Company currently has \$490,523 of cash in our bank accounts, which is sufficient to fund non-exploration activities and administrative expenses for the next three months while additional financing is put in place.

.

On June 26, 2011, the Company sold 1,000,000 units in a private placement to accredited investors. The units were priced at Cdn \$0.17 per unit, and consisted of one share of common stock, and one full warrant to purchase a full share of common stock at Cdn\$0.20 for two years. If the Company s stock closes above Cdn\$0.25 for a five consecutive days, then the Company has the right to force the holder to exercise the warrants.

.

On September 30, 2011, the Company sold 200,000 units in a private placement to accredited investors. The units were priced at Cdn \$0.17 per unit, and consisted of one share of common stock, and one full warrant to purchase a full share of common stock at Cdn\$0.20 for two years. If the Company s stock closes above Cdn\$0.25 for a five consecutive days, then the Company has the right to force the holder to exercise the warrants.

.

Management and the Board have not undertaken plans or commitments that exceed the cash available to the Company. We do not include in this consideration any additional investment funds mentioned above.

.

Management will manage expenses of all types so as to not exceed the on-hand cash resources of the Company at any point in time, now or in the future.

Management is committed to proper management and spending restraint such that the Company is believed to be able to weather current disruptions in investment markets and continue to attract investment dollars in coming months and years.

The Company's future liquidity and capital requirements will depend on many factors, including timing, cost and progress of its exploration efforts, evaluation of, and decisions with respect to, its strategic alternatives, and costs associated with the regulatory approvals. Additional financing may be required to meet our exploration and corporate expenses incurred during the next 12 months.

The Company owns outright the South Mountain Mine property in Owyhee County, Idaho that consists of 17 patented mining claims totaling approximately 326 acres, for which Management has recorded the property in the Company's financial statements for \$357,497.

The Company owns outright three 4-wheel drive vehicles that are used for exploration and project work, as well as miscellaneous field equipment and office furniture. It also leases office space in Garden City, Idaho.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Not required for smaller reporting companies.

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

At the end of the period covered by this report, an evaluation was carried out under the supervision of, and with the participation of, the Company's Management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities and Exchange Act of 1934, as amended).

#### **Changes in Internal Controls over Financial Reporting**

During the quarter covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

Not required for smaller reporting companies.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On February 12, 2012, the Company initiated a Non-Brokered Private Placement to accredited investors in Europe, the U.S., and such other jurisdictions as may be agreed to by the Company, for up to 8.3M Units at US\$0.12 per Unit. Each Unit consists of one share of THMG/THM common stock, and one-half share purchase warrant - to purchase the common stock at \$0.20 per share, valid for 12 months after the close of the financing.

The net proceeds of the Offering shall be used primarily to complete the acquisition of the Iron Creek Cobalt Gold project, initiation of the exploration on the Thunder Mountain Gold/Newmont Mining Trout Creek Joint Venture, and general corporate purposes for the completion of the Green River Energy merger.

The Company shall obtain any regulatory approval and any other consents that may be required to permit the Offering, including the approval of the TSX Venture Exchange. The securities offered hereby have not and will not be registered under the United States Securities Act of 1933 (the "1933 Act") and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the 1933 Act) unless the securities have been registered under the 1933 Act, or are otherwise exempt from such registration.

### Item 3. Defaults Upon Senior Securities.

None.

**Item 4. Mine Safety Disclosures**

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act ), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities.

During the quarter ended June 30, 2012, the Company did not have any operating mines and therefore had no such specified health and safety violations, orders or citations, related assessments or legal actions, mining-related fatalities, or similar events in relation to the Company's United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act.

**Item 5. Other Information**

None.



**Item 6. Exhibits**

(a)

Documents which are filed as a part of this report:

Exhibits:

31.1 Certification Required by Rule 13a-14(a) or Rule 15d-14(a). Jones

31.2 Certification Required by Rule 13a-14(a) or Rule 15d-14(a). Chapman

32.1 Certification required by Rule 13a-14(a) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Jones

32.2 Certification required by Rule 13a-14(a) or Rule 15d-14(b) and section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. Chapman

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The following financial information from our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 formatted in Extensible Business Reporting Language (XBRL): (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statements of Cash Flows, and (v) Notes to Financial Statements

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To be filed by amendment.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(b) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf of the undersigned, thereunto duly authorized.

THUNDER MOUNTAIN GOLD, INC.

By /s/ Eric T. Jones

Eric T. Jones

President and Chief Executive Officer

Date: August 20, 2012

Pursuant to the requirements of the Securities Act of 1934 this report signed below by the following person on behalf of the Registrant and in the capacities on the date indicated.

By /s/ R. Llee Chapman

R. Llee Chapman

Chief Financial Officer

Date: August 20, 2012

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Items not allocated to segments <sup>(a)</sup> (10,670) (11,562) (24,090) (23,560)

Income (loss) before taxes attributable to Forestar Group Inc.

\$1,543 \$(6,749) \$5,965 \$(9,934)

(a) Items not allocated to segments consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
General and administrative expense	\$ (7,120)	\$ (7,081)	\$ (11,482)	\$ (10,997)
Shared-based compensation expense	67	148	(5,164)	(3,952)
Interest expense	(3,664)	(4,653)	(7,555)	(8,662)
Other corporate non-operating income and expense	47	24	111	51
	\$ (10,670)	\$ (11,562)	\$ (24,090)	\$ (23,560)

#### Note 16 Variable Interest Entities

At second quarter-end 2012, we are the primary beneficiary of two VIEs that we consolidate. We have provided the majority of equity to these VIEs, which absent our contributions or advances do not have sufficient equity to fund their operations. We have the authority to approve project budgets and the issuance of additional debt. At second quarter-end 2012, our consolidated balance sheet includes \$14,805,000 in assets, principally real estate, and \$2,240,000 in liabilities related to these two VIEs. In second quarter 2012, we contributed or advanced \$628,000 to these VIEs.

Also at second quarter-end 2012, we are not the primary beneficiary of three VIEs that we account for using the equity method. The unrelated managing partners oversee day-to-day operations and guarantee some of the debt of the VIEs while we have the authority to approve project budgets and the issuance of additional debt. Although some of the debt is guaranteed by the managing partners, we may under certain circumstances elect or be required to provide additional funds to these VIEs. At second quarter-end 2012, these three VIEs have total assets of \$48,885,000, substantially all of which represent developed and undeveloped real estate and total liabilities of \$79,764,000, which includes \$63,481,000 of borrowings classified as current maturities. These amounts are included in unconsolidated ventures in the combined summarized balance sheet information accounted for using the equity method. Please read **Note 7**. At second quarter-end 2012, our investment in these three VIEs is \$1,678,000 and is included in investment in unconsolidated ventures. In first six months 2012, we contributed or advanced \$74,000 to these VIEs. Our maximum exposure to loss related to these VIEs is estimated at \$34,600,000, which exceeds our investment as we have a nominal general partner interest in two of these VIEs and could be held responsible for their liabilities. The maximum exposure to loss represents the maximum loss that we could be required to recognize assuming all the ventures' assets (principally real estate) are worthless, without consideration of the probability of a loss or of any actions we may take to mitigate any such loss.

**Table of Contents****Note 17 Share-Based Compensation**

Share-based compensation expense (income) consists of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Cash-settled awards	\$ (1,800)	\$ (1,488)	\$ 282	\$ 681
Equity-settled awards	555	262	1,829	411
Restricted stock	508	607	1,122	1,270
Stock options	670	471	1,931	1,590
	\$ (67)	\$ (148)	\$ 5,164	\$ 3,952

Share-based compensation expense (income) is included in:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
General and administrative expense	\$ (371)	\$ (232)	\$ 2,230	\$ 1,823
Other operating expense	304	84	2,934	2,129
	\$ (67)	\$ (148)	\$ 5,164	\$ 3,952

The fair value of awards granted to retirement eligible employees and expensed at the date of grant was \$595,000 in first six months 2012 and \$654,000 in first six months 2011. Unrecognized share-based compensation expense related to non-vested equity-settled awards, restricted stock and stock options is \$10,968,000 at second quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be two years. We did not capitalize any share-based compensation in first six months 2012 or 2011.

In first six months 2012, we withheld 71,082 shares having a value of \$1,151,000 in connection with vesting of restricted stock awards and exercises of stock options. In first six months 2011, we withheld 64,437 shares having a value of \$1,216,000 in connection with vesting of restricted stock awards and exercises of stock options. These shares are included in treasury stock and are reflected in financing activities in our consolidated statement of cash flows.

A summary of awards granted under our 2007 Stock Incentive Plan follows:

**Cash-settled awards**

Cash-settled awards granted to our employees in the form of restricted stock units or stock appreciation rights generally vest over three to four years from the date of grant and generally provide for accelerated vesting upon death, disability or if there is a change in control. Vesting for some restricted stock unit awards is also conditioned upon achievement of a minimum one percent annualized return on assets over a three-year period. Cash-settled stock appreciation rights have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. Stock appreciation rights were granted with an exercise price equal to the market value of our stock on the date of grant.

Cash-settled awards granted to our directors in the form of restricted stock units are fully vested at the time of grant and payable upon retirement.

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The following table summarizes the activity of cash-settled restricted stock unit awards in first six months 2012:

	<b>Equivalent Units (In thousands)</b>	<b>Weighted Average Grant Date Fair Value (Per unit)</b>
Non-vested at beginning of year	449	\$ 13.13
Granted	187	16.11
Vested	(286)	10.32
Forfeited		
Non-vested at end of period	350	\$ 17.03

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The following table summarizes the activity of cash-settled stock appreciation rights in first six months 2012:

	Rights Outstanding  (In thousands)	Weighted Average Exercise Price  (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (Current Value Less Exercise Price)  (In thousands)
Balance at beginning of year	895	\$ 11.31	7	\$ 3,986
Granted				
Exercised	(11)	9.29		
Forfeited				
Balance at end of period	884	\$ 11.33	7	\$ 2,365
Exercisable at end of period	607	\$ 10.80	7	\$ 1,757

The fair value of awards settled in cash was \$4,710,000 in first six months 2012 and \$184,000 in first six months 2011. At second quarter-end 2012, the fair value of vested cash-settled awards is \$13,291,000 and is included in other liabilities. The aggregate current value of non-vested cash-settled awards is \$5,081,000 at second quarter-end 2012 based on a quarter-end stock price of \$12.81.

**Equity-settled awards**

Equity-settled awards granted to our employees include restricted stock units (RSU), which vest ratably over three years from the date of grant, and market-leveraged stock units (MSU), which vest after three years. Equity settled awards in the form of restricted stock units granted to our directors are fully vested at time of grant and payable upon retirement. The following table summarizes the activity of equity-settled awards in first six months 2012:

	Equivalent Units  (In thousands)	Weighted Average Grant Date Fair Value  (Per share)
Non-vested at beginning of year	159	\$ 20.74
Granted	291	17.48
Vested	(81)	16.05
Forfeited		
Non-vested at end of period	369	\$ 19.20

In first quarter 2012, we granted 154,900 MSU awards. These awards will be settled in common stock based upon our stock price performance over three years from the date of grant. The number of shares to be issued could range from a high of 232,370 shares if our stock price increases by 50 percent or more, to a low of 77,460 shares if our stock price decreases by 50 percent, or could be zero if our stock price decreases by more than 50 percent, the minimum threshold performance. MSU awards are valued using a Monte Carlo simulation pricing model, which includes expected stock price volatility and risk-free interest rate assumptions. Compensation expense is recognized regardless of achievement of performance conditions, provided the requisite service period is satisfied.

Unrecognized share-based compensation expense related to non-vested equity-settled awards is \$4,838,000 at second quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be two years.





**Table of Contents****Restricted stock**

Restricted stock awards vest either ratably over or after three years, generally if we achieve a minimum one percent annualized return on assets over such three-year period. The following table summarizes the activity of restricted stock awards in first six months 2012:

	Restricted Shares (In thousands)	Weighted Average Grant Date Fair Value (Per share)
Non-vested at beginning of year	399	\$ 15.02
Granted		
Vested	(183)	12.65
Forfeited		
Non-vested at end of period	216	\$ 17.03

Unrecognized share-based compensation expense related to non-vested restricted stock awards is \$1,466,000 at second quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be one year.

**Stock options**

Stock options have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. Options were granted with an exercise price equal to the market value of our stock on the date of grant. The following table summarizes the activity of stock option awards in first six months 2012:

	Options Outstanding (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (Current Value Less Exercise Price) (In thousands)
Balance at beginning of year	1,284	\$ 22.22	7	\$ 944
Granted	453	16.11		
Exercised				
Forfeited				
Balance at end of period	1,737	\$ 20.62	8	\$ 569
Exercisable at end of period	910	\$ 24.20	6	\$ 427

We estimate the fair value of stock options using the Black-Scholes option pricing model and the following assumptions:

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	First Six Months	
	2012	2011
Expected dividend yield	%	%
Expected stock price volatility	61.8 %	56.2 %
Risk-free interest rate	1.4 %	2.4 %
Expected life of options (years)	6	6
Weighted average estimated fair value of options granted	\$ 9.32	\$ 10.11

We have limited historical experience as a stand-alone company so we utilized alternative methods in determining our valuation assumptions. The expected life was based on the simplified method utilizing the midpoint between the vesting period and the contractual life of the awards. Our expected stock price volatility is based on a blended rate utilizing our historical volatility and historical prices of our peers' common stock for a period corresponding to the expected life of the options. Pre-vesting forfeitures are estimated based upon the pool of participants and their expected activity and historical trends.

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Unrecognized share-based compensation expense related to non-vested stock options is \$4,664,000 at second quarter-end 2012. The weighted average period over which this amount will be recognized is estimated to be two years.

***Pre-Spin Awards***

Certain of our employees participated in Temple-Inland's share-based compensation plans. In conjunction with the 2007 spin-off, these awards were equitably adjusted into separate awards of the common stock of Temple-Inland and the spin-off entities. As result of Temple-Inland's merger with International Paper in first quarter 2012, all outstanding awards on Temple-Inland stock were settled with an intrinsic value of \$1,132,000.

Pre-Spin stock option awards to our employees to purchase our common stock have a ten-year term, generally become exercisable ratably over four years and provide for accelerated or continued vesting upon retirement, death, disability or if there is a change in control. At second quarter-end 2012, there were 69,000 awards outstanding and exercisable on our stock with a weighted average exercise price of \$23.17, weighted average remaining term of three years and aggregate intrinsic value of \$40,000.

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### **Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Annual Report on Form 10-K. Unless otherwise indicated, information is presented as of second quarter-end 2012, and references to acreage owned includes all acres owned by ventures regardless of our ownership interest in a venture.

#### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q and other materials we have filed or may file with the Securities and Exchange Commission contain forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are identified by their use of terms and phrases such as believe, anticipate, could, estimate, likely, intend, may, plan, expect, and similar expressions, including assumptions. These statements reflect our current views with respect to future events and are subject to risks and uncertainties. We note that a variety of factors and uncertainties could cause our actual results to differ significantly from the results discussed in the forward-looking statements. Factors and uncertainties that might cause such differences include, but are not limited to:

general economic, market or business conditions in Texas or Georgia, where our real estate activities are concentrated;

our ability to achieve some or all of our strategic initiatives;

the opportunities (or lack thereof) that may be presented to us and that we may pursue;

significant customer concentration;

future residential, multifamily or commercial entitlements, development approvals and the ability to obtain such approvals;

obtaining approvals of reimbursements and other payments from special improvement districts and the timing of such payments

accuracy of estimates and other assumptions related to investment in real estate, the expected timing and pricing of land and lot sales and related cost of real estate sales, impairment of long-lived assets, income taxes, share-based compensation and oil and natural gas reserves;

the levels of resale housing inventory and potential impact of foreclosures in our mixed-use development projects and the regions in which they are located;

fluctuations in costs and expenses;

demand for new housing, which can be affected by a number of factors including the availability of mortgage credit;

competitive actions by other companies;

changes in governmental policies, laws or regulations and actions or restrictions of regulatory agencies;

government regulation of exploration and production technology, including hydraulic fracturing;

the results of financing efforts, including our ability to obtain financing with favorable terms;

our partners' ability to fund their capital commitments and otherwise fulfill their operating and financial obligations;

the effect of limitations, restrictions and natural events on our ability to harvest and deliver timber;

inability to obtain permits for, or changes in laws, governmental policies or regulations effecting, water withdrawal or usage and

the final resolutions or outcomes with respect to our contingent and other liabilities related to our business.

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Other factors, including the risk factors described in Item 1A of our 2011 Annual Report on Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. New factors emerge from time to time and it is not possible for us to predict all such factors, nor can we assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

## **Strategy**

Our strategy is:

Recognizing and responsibly delivering the greatest value from every acre; and

Growing through strategic and disciplined investments.

## **2012 Strategic Initiatives**

In 2012, we announced Triple in FOR, new strategic initiatives designed to further enhance shareholder value by:

Accelerating value realization of our real estate and natural resources by increasing total residential lots sales, oil and gas production, and total segment earnings.

Optimizing transparency and disclosure by expanding reported oil and natural gas resources, providing additional information related to groundwater interests, and establishing a progress report on corporate responsibility efforts.

Raising our net asset value through strategic and disciplined investments by pursuing growth opportunities which help prove up our asset value and meet return expectations, developing a low-capital, high-return multifamily business, and accelerating investment in lower-risk oil and natural gas opportunities.

## **Strategic Acquisition**

On June 3, 2012, we entered into a definitive agreement to acquire CREDO Petroleum Corporation (Credo) in an all cash transaction for \$14.50 per share, representing an equity purchase price of approximately \$146,000,000. Closing is subject to customary conditions, including approval by Credo's stockholders and, if approved, is expected to close in second half of 2012. We obtained a commitment for bridge financing that, combined with available liquidity, is sufficient to fund the acquisition. However, we intend to pursue amendments to our existing senior secured credit facility to fund a significant portion of the purchase price.

**Table of Contents****Results of Operations**

A summary of our consolidated results by business segment follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
(In thousands)				
<b>Revenues:</b>				
Real estate	\$ 26,647	\$ 19,615	\$ 44,569	\$ 40,754
Mineral resources	7,148	4,580	16,574	11,913
Fiber resources	1,517	1,290	2,261	2,658
<b>Total revenues</b>	<b>\$ 35,312</b>	<b>\$ 25,485</b>	<b>\$ 63,404</b>	<b>\$ 55,325</b>
<b>Segment earnings:</b>				
Real estate	\$ 7,666	\$ 1,007	\$ 19,243	\$ 3,582
Mineral resources	3,953	3,102	9,828	8,700
Fiber resources	594	704	984	1,344
<b>Total segment earnings</b>	<b>12,213</b>	<b>4,813</b>	<b>30,055</b>	<b>13,626</b>
<b>Items not allocated to segments:</b>				
General and administrative expense	(7,120)	(7,081)	(11,482)	(10,997)
Share-based compensation expense	67	148	(5,164)	(3,952)
Interest expense	(3,664)	(4,653)	(7,555)	(8,662)
Other corporate non-operating income and expense	47	24	111	51
<b>Income (loss) before taxes</b>	<b>1,543</b>	<b>(6,749)</b>	<b>5,965</b>	<b>(9,934)</b>
<b>Income tax benefit (expense)</b>	<b>(732)</b>	<b>2,828</b>	<b>(2,352)</b>	<b>3,540</b>
<b>Net income (loss) attributable to Forestar Group Inc.</b>	<b>\$ 811</b>	<b>\$ (3,921)</b>	<b>\$ 3,613</b>	<b>\$ (6,394)</b>

Significant aspects of our results of operations follow:

**Second Quarter and First Six months 2012**

Second quarter 2012 real estate segment earnings benefited principally from \$3,401,000 gain from a consolidated venture's sale of 800 acres near Dallas and increased residential lot and commercial sales. In first six months 2012, segment earnings benefited principally from \$11,675,000 gain from the sale of our 25 percent interest in Palisades West LLC for \$32,095,000 and increased residential lot and commercial sales. These items are partially offset by decreased retail land sales volume.

Mineral resources segment earnings benefited from increased oil production volumes which was partially offset by decreased lease bonus activity and increased costs from additional oil and natural gas personnel and professional services associated with our water initiatives.

Second quarter and first six months 2012 general and administrative expense includes \$2,461,000 in transaction costs to outside advisors related to entering into a definitive agreement to acquire CREDO Petroleum Corporation.



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Second quarter 2012 share-based compensation expense related to cash-settled awards decreased as result of a decline in our stock price and the impact on vested awards. In first six months 2012, the decline in our stock price and the impact on cash-settled awards was offset by expenses related to equity-settled awards granted in first quarter 2012.

### *Second Quarter and First Six months 2011*

Second quarter 2011 real estate segment earnings was negatively impacted by lower undeveloped land sales and prices as a result of current market conditions. Second quarter and first six months 2011 real estate earnings benefited from increased residential lot sales and prices and reallocation from us to noncontrolling financial interests of a previously recognized \$1,342,000 loss related to foreclosure of a lien on a property owned by a consolidated venture, which partially offset lower levels of undeveloped land sales.

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Second quarter and first six months 2011 mineral resources segment earnings declined primarily due to increased costs associated with developing our water resources initiatives.

Second quarter and first six months 2011 general and administrative expense includes \$2,730,000 associated with proposed private debt offerings that we withdrew as a result of deterioration of terms available to us in the credit markets.

Second quarter and first six months 2011 share-based compensation decreased primarily due to the effect of our lower stock price associated with vested cash-settled awards.

## **Current Market Conditions**

Current U.S. single-family residential market conditions are showing signs of stability; however, high unemployment rates, depressed sales volumes and prices, difficult financing environment for purchasers and competition from foreclosure inventory continue to negatively influence housing markets. It is difficult to predict when and at what rate these broader negative conditions will improve. We have seen signs of stability in certain markets, where declining finished lot inventories and lack of real estate development is increasing demand for our developed lots, principally in the Texas markets. Multifamily market conditions continue to be strong, with many markets experiencing healthy occupancy levels and positive rent growth. This improvement has been driven primarily by limited new construction activity, reduced single-family mortgage credit availability, and the increased propensity to rent among the 18 to 34 year old demographic of the U.S. population.

Oil prices have weakened recently reflecting market concerns about world economic and oil demand growth. Natural gas prices have remained at low historical levels due to abundant supplies and high inventories due to a warm winter. Shale resource drilling and production remains strong and working natural gas inventories are expected to remain relatively high. In the East Texas Basin, exploration and production companies continue to focus drilling on high liquid rich gas prospects due to relatively high condensate and natural gas liquids prices. In the Gulf Coast Basin, in Louisiana, activity has increased as operators have shifted exploration efforts to oil and high liquid natural gas plays. These conditions may impact the demand for new mineral leases, new exploration activity and the amount of royalty revenues we receive.

Pine sawtimber prices continue to be depressed due to weak demand driven by the overall slowdown in residential construction activity, while pine pulpwood demand remains steady and pricing is relatively flat.

## **Business Segments**

We manage our operations through three business segments:

Real estate,

Mineral resources, and

Fiber resources.

We evaluate performance based on earnings (loss) before unallocated items and income taxes. Segment earnings (loss) consist of operating income, equity in earnings (loss) of unconsolidated ventures, gain on sale of assets, yield accretion on loans secured by real estate and net (income) loss attributable to noncontrolling interests. Items not allocated to our business segments consist of general and administrative expenses, share-based compensation, gain on sale of strategic timberland, interest expense and other corporate non-operating income and expense. The accounting policies of the segments are the same as those described in the accounting policy note to the consolidated financial statements.

We operate in cyclical industries. Our operations are affected to varying degrees by supply and demand factors and economic conditions including changes in interest rates, availability of mortgage credit, consumer and home builder sentiment, new housing starts, real estate values, employment levels, changes in the market prices for oil, natural gas, and timber, and the overall strength or weakness of the U.S. economy.

*Real Estate*

We own directly or through ventures about 145,000 acres of real estate located in eight states and 12 markets. Our real estate segment secures entitlements and develops infrastructure on our lands, primarily for single-family residential and mixed-use communities. We own approximately 104,000 acres in a broad area around Atlanta, Georgia, with the balance located primarily in Texas. We target investments principally in regions across the southern half of the United States that possess key demographic and growth

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characteristics that we believe make them attractive for long-term real estate investment. We own and manage our projects either directly or through ventures. Our real estate segment revenues are principally derived from the sales of residential single-family lots and tracts, undeveloped land and commercial real estate and from the operation of commercial and income producing properties, primarily a hotel and our multifamily investments.

A summary of our real estate results follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Revenues	\$ 26,647	\$ 19,615	\$ 44,569	\$ 40,754
Cost of sales	(15,216)	(10,357)	(25,547)	(20,527)
Operating expenses	(8,243)	(8,633)	(15,787)	(16,347)
	3,188	625	3,235	3,880
Yield accretion on loan secured by real estate	1,093		1,093	
Gain on sale of assets	3,401		15,076	
Equity in earnings (loss) of unconsolidated ventures	644	(23)	1,194	66
Less: Net (income) loss attributable to noncontrolling interests	(660)	405	(1,355)	(364)
Segment earnings	\$ 7,666	\$ 1,007	\$ 19,243	\$ 3,582

Second quarter and first six months 2012 segment earnings include \$1,093,000 related to yield accretion on a loan secured by real estate.

In second quarter and first six months 2012, gain on sale of assets includes \$3,401,000 from a consolidated venture's sale of 800 acres in Dallas. In addition, in first six months 2012, gain on sale of assets includes \$11,675,000 from the sale of our 25 percent interest in Palisades West LLC for \$32,095,000.

Revenues in our owned and consolidated ventures consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Residential real estate	\$ 14,830	\$ 9,360	\$ 23,328	\$ 17,227
Commercial real estate	1,765	736	1,765	736
Undeveloped land	2,581	2,480	3,314	8,570
Commercial and income producing properties	7,298	6,812	14,576	13,747
Other	173	227	1,586	474
Total revenues	\$ 26,647	\$ 19,615	\$ 44,569	\$ 40,754

Residential real estate revenues principally consist of the sale of single-family lots to national, regional and local homebuilders. In second quarter and first six months 2012, residential real estate revenues increased principally as a result of increased lot sales volume due to demand for finished lot inventory by homebuilders in markets where supply has diminished. In second quarter 2012, we sold the remaining 109 fully developed lots from our River Plantation project located in Tampa for \$2,145,000 or about \$19,675 per lot, resulting in about \$533,000 in segment earnings.

In second quarter and first six months 2012, commercial real estate revenues increased primarily as result of selling 35 acres from our Summer Creek Ranch project located in Fort Worth for \$1,295,000 which generated about \$822,000 in segment earnings.

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In first six months 2012, undeveloped land sales decreased due to lower volume from our retail land sales program as a result of challenging market conditions including limited credit availability and alternate investment options to buyers in the marketplace.

In second quarter and first six months 2012, commercial and income producing properties revenue increased as a result of higher occupancy levels and revenue per available room from our 413 guest room hotel in Austin and rent growth from our 401 unit multifamily property located in Houston.

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In first six months 2012, other revenues include \$1,047,000 as result of selling seven acres of impervious cover entitlement credits to a national homebuilder. This sale generated segment earnings of approximately \$920,000.

Units sold in our owned and consolidated ventures consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
Residential real estate:				
Lots sold	345	158	482	303
Revenue per lot sold	\$ 42,725	\$ 59,235	\$ 48,210	\$ 56,853
Commercial real estate:				
Acres sold	38	4	38	4
Revenue per acre sold	\$ 47,040	\$ 185,344	\$ 47,040	\$ 185,344
Undeveloped land:				
Acres sold	933	762	1,253	3,390
Revenue per acre sold	\$ 2,765	\$ 3,258	\$ 2,645	\$ 2,528

Operating expenses consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Employee compensation and benefits	\$ 1,929	\$ 1,896	\$ 4,054	\$ 3,837
Property taxes	2,398	2,277	4,341	4,461
Professional services	821	1,265	2,078	2,231
Depreciation and amortization	1,103	1,314	2,150	2,594
Other	1,992	1,881	3,164	3,224
Total operating expenses	\$ 8,243	\$ 8,633	\$ 15,787	\$ 16,347

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Information about our real estate projects and our real estate ventures follows:

	Second Quarter-End	
	2012	2011
<b>Owned and consolidated ventures:</b>		
Entitled, developed and under development projects		
Number of projects	65	53
Residential lots remaining	19,979	18,763
Commercial acres remaining	2,085	1,811
Undeveloped land and land in the entitlement process		
Number of projects	16	17
Acres in entitlement process	27,590	28,650
Acres undeveloped	95,901	166,626
<b>Ventures accounted for using the equity method:</b>		
Ventures lot sales (for first six months)		
Lots sold	230	194
Average price per lot sold	\$ 47,568	\$ 40,882
Ventures entitled, developed and under development projects		
Number of projects	7	21
Residential lots remaining	3,954	9,440
Commercial acres sold (for first six months)		20
Average price per acre sold	\$	\$ 152,460
Commercial acres remaining	333	538
Ventures undeveloped land and land in the entitlement process		
Acres sold (for first six months)	135	19
Average price per acre sold	\$ 2,600	\$ 3,000
Acres undeveloped	5,655	5,712

In first quarter 2012, we acquired from CL Realty and Temco, 14 entitled, developed and under development projects and interests in three ventures accounted for using the equity method. The acquired assets represented approximately 1,130 fully developed lots, 4,900 planned lots, and over 460 commercial acres at time of acquisition, principally in the major markets of Texas.

We underwrite development projects based on a variety of assumptions incorporated into our development plans, including the timing and pricing of sales and leasing and costs to complete development. Our development plans are periodically reviewed in comparison to our return projections and expectations, and we may revise our plans as business conditions warrant. If as a result of changes to our development plans the anticipated future net cash flows are reduced such that our basis in a project is not fully recoverable, we may be required to recognize a non-cash impairment charge for such project.

At second quarter-end 2012, Broadstone Memorial, a 401unit multifamily property in Houston with a carrying value of \$46,001,000, is being marketed for sale with a targeted close in the second half of 2012. Las Brisas, a 414 unit (unconsolidated venture) multifamily property located near Austin with a carrying value of \$31,739,000, also is being marketed for sale with a targeted close in the second half of 2012. We hold a 59 percent interest in the venture that owns Las Brisas.

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Our net investment in owned and consolidated real estate by geographic location follows:

State	Entitled, Developed, and Under Development Projects	Undeveloped Land	Commercial and Income Producing Properties	Total
(In thousands)				
Texas	\$ 299,122	\$ 9,626	\$ 99,436	\$ 408,184
Georgia	21,916	58,433		80,349
Colorado	21,937			21,937
California	8,915	14,771		23,686
Other	6,509	573		7,082
Total	\$ 358,399	\$ 83,403	\$ 99,436	\$ 541,238

**Mineral Resources**

We own directly or through ventures about 594,000 net acres of mineral interests. Our mineral resources segment revenues are principally derived from oil and natural gas royalties, non-operating working interests and other lease revenues from our mineral interests located principally in Texas, Louisiana, Georgia and Alabama. At second quarter-end 2012, we have about 45,000 net acres under lease and about 35,000 net acres held by production.

A summary of our mineral resources results follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
(In thousands)				
Revenues	\$ 7,148	\$ 4,580	\$ 16,574	\$ 11,913
Cost of sales	(978)	(438)	(2,353)	(1,232)
Operating expenses	(2,337)	(1,459)	(4,681)	(2,888)
	3,833	2,683	9,540	7,793
Equity in earnings of unconsolidated ventures	120	419	288	907
Segment earnings	\$ 3,953	\$ 3,102	\$ 9,828	\$ 8,700

Cost of sales represents our share of oil and natural gas production severance taxes, which are calculated based on a percentage of oil and natural gas produced, costs related to our oil and natural gas non-operating working interests and delay rental payments related to ground water leases in central Texas.

Equity in earnings of unconsolidated ventures includes our share of royalty revenue from 23 producing wells in the Barnett Shale natural gas formation.

Revenues consist of:

Second Quarter		First Six Months	
2012	2011	2012	2011
(In thousands)			



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Royalties	\$ 6,031	\$ 3,686	\$ 13,058	\$ 7,362
Non-operating working interests	602	141	1,517	270
Other revenues	515	753	1,999	4,281
Total revenues	\$ 7,148	\$ 4,580	\$ 16,574	\$ 11,913

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In second quarter 2012, royalty revenues increased principally as result of increased oil production partially offset by decreased oil prices in our owned and consolidated properties and decreased natural gas prices. Increased oil production contributed about \$3,441,000 which was offset by \$467,000 from decreased oil prices as compared with second quarter 2011. Increased natural gas production contributed about \$366,000 which was offset by \$533,000 from decreased natural gas prices as compared with second quarter 2011. In first six months 2012, royalty revenues increased principally as result of increased oil production in our owned and consolidated properties. Increased oil production contributed about \$6,500,000 as compared with first six months 2011. In first six months 2012, increased natural gas production contributed about \$566,000 which was more than offset by \$711,000 from decreased natural gas prices as compared with second quarter 2011.

In second quarter and first six months 2012, non-operating working interests revenue increased principally as result of our investment in new producing wells within the West Gordon Field located in Beauregard Parish, Louisiana.

In second quarter 2012, other revenues include \$447,000 in delay rentals received on approximately 1,300 net mineral acres in Louisiana. There was no leasing activity in second quarter 2012. In second quarter 2011, other revenues include \$475,000 in lease bonuses received as a result of leasing over 2,500 net mineral acres for an average of \$187 per acre, of which 1,500 net mineral acres had no lease bonus payment in return for a short-term drilling commitment from the operator. In addition, other revenues include delay rentals received of \$70,000 in second quarter 2011.

In first six months 2012, other revenues include \$1,562,000 in delay rentals received on approximately 5,600 net mineral acres in Louisiana and \$287,000 in lease bonuses received as a result of leasing about 800 net mineral acres for an average of about \$360 per acre. In first six months 2011, other revenues include \$2,132,000 in lease bonuses received as a result of leasing nearly 7,400 net mineral acres for an average of \$289 per acre, \$1,555,000 related to mineral seismic exploration agreement associated with 31,100 acres in Louisiana and \$226,000 related to delay rentals received.

Oil and natural gas produced and average unit prices related to our royalty interests follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
<i>Consolidated entities:</i>				
Oil production (barrels)	61,600	27,900	130,700	59,900
Average price per barrel	\$ 94.64	\$ 102.23	\$ 96.19	\$ 91.69
Natural gas production (millions of cubic feet)	338.3	246.0	700.5	554.1
Average price per thousand cubic feet	\$ 2.39	\$ 3.96	\$ 2.85	\$ 3.87
<i>Our share of ventures accounted for using the equity method:</i>				
Natural gas production (millions of cubic feet)	82.1	127.6	172.2	286.2
Average price per thousand cubic feet	\$ 2.01	\$ 3.84	\$ 2.52	\$ 3.69
<i>Total consolidated and our share of equity method ventures:</i>				
Oil production (barrels)	61,600	27,900	130,700	59,900
Average price per barrel	\$ 94.64	\$ 102.23	\$ 96.19	\$ 91.69
Natural gas production (millions of cubic feet)	420.4	373.6	872.7	840.3
Average price per thousand cubic feet	\$ 2.31	\$ 3.92	\$ 2.79	\$ 3.81
Total BOE (barrels of oil equivalent)	131,629	90,157	276,197	199,922
Average price per barrel	\$ 51.65	\$ 47.88	\$ 54.34	\$ 43.46

At second quarter-end 2012, there were 541 productive wells operated by others on our leased mineral acres compared to 501 productive wells at second quarter-end 2011.

Operating expenses consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Professional and consulting services	\$ 974	\$ 649	\$ 2,011	\$ 1,293
Employee compensation and benefits	807	429	1,529	882
Property taxes	79	74	150	150

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Other	477	307	991	563
Total operating expenses	\$ 2,337	\$ 1,459	\$ 4,681	\$ 2,888

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Professional and consulting services include \$429,000 in second quarter 2012 and 2011 and \$857,000 in first six months 2012 and 2011 due to non-cash amortization of contingent consideration paid to the seller of a water resources company acquired in 2010. These costs are being amortized ratably over the performance period assuming certain milestones are achieved by July 2014. In second quarter and first six months 2012, employee compensation and benefits increased principally as result of incremental staffing to support our oil, natural gas and water interests.

In addition, we have water interests in 1,550,000 acres, including a 45 percent nonparticipating royalty interest in groundwater produced or withdrawn for commercial purposes or sold from approximately 1,400,000 acres in Texas, Louisiana, Georgia and Alabama and 17,800 acres of ground water leases in central Texas. We have not received significant revenue or earnings from these interests.

**Fiber Resources**

Our fiber resources segment focuses principally on the management of our timber holdings and recreational leases. We have about 129,000 acres of timber we own directly or through ventures, primarily in Georgia, and about 17,000 acres of timber under lease. Our fiber resources segment revenues are principally derived from the sales of wood fiber from our land and leases for recreational uses. We have sold about 219,000 acres of timberland since year-end 2008. As a result of the reduced acreage from land sales, future segment revenues and earnings are anticipated to be lower.

A summary of our fiber resources results follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Revenues	\$ 1,517	\$ 1,290	\$ 2,261	\$ 2,658
Cost of sales	(370)	(285)	(498)	(532)
Operating expenses	(557)	(488)	(1,023)	(974)
	590	517	740	1,152
Other operating income, principally gain on termination of timber leases		181	234	181
Equity in earnings of unconsolidated ventures	4	6	10	11
<b>Segment earnings</b>	<b>\$ 594</b>	<b>\$ 704</b>	<b>\$ 984</b>	<b>\$ 1,344</b>

Revenues consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Fiber	\$ 1,232	\$ 852	\$ 1,566	\$ 1,717
Recreational leases and other	285	438	695	941
<b>Total revenues</b>	<b>\$ 1,517</b>	<b>\$ 1,290</b>	<b>\$ 2,261</b>	<b>\$ 2,658</b>

Fiber sold consists of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
Pulpwood tons sold	80,800	70,700	105,200	136,300

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Average pulpwood price per ton	\$ 9.24	\$ 9.22	\$ 9.46	\$ 9.20
Sawtimber tons sold	24,900	12,700	29,300	28,200
Average sawtimber price per ton	\$ 19.46	\$ 15.69	\$ 19.47	\$ 16.40
Total tons sold	105,700	83,400	134,500	164,500
Average price per ton	\$ 11.66	\$ 10.21	\$ 11.64	\$ 10.44

In first six months 2012, total fiber tons sold decreased principally due to the sale of about 74,000 acres of timberland in 2011. The majority of our fiber sales were to International Paper at market prices.

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Information about our recreational leases follows:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
Average recreational acres leased	131,800	197,000	131,400	199,000
Average price per leased acre	\$ 8.84	\$ 8.96	\$ 8.82	\$ 8.93

Operating expenses consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Employee compensation and benefits	\$ 273	\$ 231	\$ 517	\$ 468
Facility and long-term timber lease costs	116	109	237	227
Other	168	148	269	279
Total operating expenses	\$ 557	\$ 488	\$ 1,023	\$ 974

**Items Not Allocated to Segments**

Unallocated items represent income and expenses managed on a company-wide basis and include general and administrative expenses, share-based compensation, gain on sale of strategic timberland, interest expense and other corporate non-operating income and expense. General and administrative expenses principally consist of accounting and finance, tax, legal, human resources, internal audit, information technology and our board of directors. These functions support all of our business segments and are not allocated.

General and administrative expenses consist of:

	Second Quarter		First Six Months	
	2012	2011	2012	2011
	(In thousands)			
Professional services	\$ 3,123	\$ 3,686	\$ 3,965	\$ 4,425
Employee compensation and benefits	1,770	1,372	3,346	2,827
Depreciation and amortization	274	351	573	702
Insurance costs	242	289	511	533
Facility costs	180	173	378	384
Other	1,531	1,210	2,709	2,126
Total general and administrative expenses	\$ 7,120	\$ 7,081	\$ 11,482	\$ 10,997

Second quarter and first six months 2012 general and administrative expense includes \$2,461,000 in transaction costs to outside advisors related to entering into a definitive agreement to acquire CREDO Petroleum Corporation.

Second quarter and first six months 2011 general and administrative expense includes \$2,730,000 in costs associated with a proposed private debt offerings that we withdrew as a result of deterioration of terms available to us in the credit markets.

**Income Taxes**

Our effective tax rate was 33 percent in second quarter 2012 and was 32 percent in first six months 2012, which includes a 3 percent benefit for noncontrolling interests. Our effective tax rate was a benefit of 40 percent in second quarter 2011 and a 37 percent benefit in first six months 2011, which included a 2 percent non-cash charge for share based compensation. In addition, 2012 and 2011 effective tax rates include the effect

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of state income taxes, nondeductible items and benefits of percentage depletion.

We have not provided a valuation allowance for our federal deferred tax asset because we believe it is likely it will be recoverable in future periods based on considerations including taxable income in prior carryback years, future reversals of existing temporary differences, tax planning strategies and future taxable income. If these sources of income are not sufficient in future periods, we may be required to provide a valuation allowance for our federal deferred tax asset.

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**Table of Contents****Capital Resources and Liquidity*****Sources and Uses of Cash***

We operate in cyclical industries and our cash flows fluctuate accordingly. Our principal operating cash requirements are for the acquisition and development of real estate, either directly or indirectly through ventures, taxes, interest and compensation. Our principal sources of cash are proceeds from the sale of real estate and timber, the cash flow from minerals and income producing properties, borrowings, and reimbursements from utility and improvement districts. Operating cash flows are affected by the timing of the payment of real estate development expenditures and the collection of proceeds from the eventual sale of the real estate, the timing of which can vary substantially depending on many factors including the size of the project, state and local permitting requirements and availability of utilities, and by the timing of oil and natural gas leasing and production activities. Working capital is subject to operating needs, the timing of sales of real estate and timber, the timing of collection of mineral royalties or mineral lease payments, collection of receivables, reimbursement from utility and improvement districts and the payment of payables and expenses.

***Cash Flows from Operating Activities***

Cash flows from our real estate development activities, undeveloped land sales, commercial and income producing properties, timber sales, mineral and recreational leases and reimbursements from utility and improvement districts are classified as operating cash flows.

In first six months 2012, net cash (used for) operating activities was (\$11,993,000) as expenditures for real estate development and acquisitions exceeded non-cash real estate cost of sales, principally as result of acquiring real estate assets from CL Realty and Temco for \$47,000,000. Subsequent to closing of this acquisition, we received \$23,370,000 from the ventures, representing our pro-rata share of distributable cash. Also, we invested an additional \$14,341,000 in a 289 unit multifamily property currently under construction in Austin and we paid \$10,895,000 in federal and state taxes, net of refunds. We received \$24,294,000 in net proceeds from a consolidated venture's sale of 800 acres in Dallas and \$10,934,000 in reimbursements from two new multifamily ventures which represents our venture partners' pro-rata share of the costs. In first six months 2011, net cash (used for) operating activities was (\$33,930,000) which is principally due to our acquisition from a financial institution of a non-performing loan secured by a lien on developed and undeveloped land near Houston for \$21,137,000, our investment in undeveloped land in San Antonio, Texas for \$7,900,000 and our payment of \$7,596,000 in federal and state income taxes, net of refunds.

***Cash Flows from Investing Activities***

Capital contributions to and capital distributions from unconsolidated ventures, business acquisitions and investment in oil and natural gas properties and equipment are classified as investing activities. In addition, proceeds from the sale of property and equipment, software costs and expenditures related to reforestation activities are also classified as investing activities.

In first six months 2012, net cash provided by investing activities was \$27,796,000 principally due to proceeds from the sale of our 25 percent interest in Palisades West LLC for \$32,095,000. In addition, we invested \$2,264,000 in oil and natural gas properties and equipment associated with our non-operating working interests and \$1,341,000 in property and equipment, software and reforestation and \$694,000 in net contributions to unconsolidated ventures. In first six months 2011, net cash (used for) investing activities was (\$3,501,000) and is principally related to \$2,112,000 invested in oil and gas properties as non-operating working interests, \$883,000 in net contributions to unconsolidated ventures and \$899,000 in property, equipment, software and reforestation.

***Cash Flows from Financing Activities***

In first six months 2012, net cash provided by financing activities was \$11,388,000. Our net increase in borrowings of \$11,347,000 was principally used to fund our development activities. In second quarter-end 2012, our outstanding debt decreased by \$30,991,000 as a result of a consolidated venture's sale of 800 acres in Dallas and the buyer's assumption of the debt. Also, in second quarter 2012, we secured project level financing on a 289 unit multifamily property in Austin with \$10,607,000 outstanding at second quarter-end 2012. In first six months 2011, net cash provided by financing activities was \$37,780,000 due to net increase in our debt of \$39,236,000 principally to fund our expenditures for acquisitions and development.

***Liquidity***

At second quarter-end 2012, our senior secured credit facility provides for a \$130,000,000 term loan maturing August 6, 2015 and a \$200,000,000 revolving line of credit maturing August 6, 2014. The term loan and the revolving line of credit may be prepaid at any time without penalty. The revolving line of credit includes a \$100,000,000 sublimit for letters of credit, of which \$2,558,000 is outstanding at second



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quarter-end 2012. Total borrowings under our senior secured credit facility (including the face amount of letters of credit) may not exceed a borrowing base formula. Our borrowing base availability is calculated on a monthly basis by applying advance rates of between 35 - 60 percent against base asset values which include timberland, high-value timberland (land in the entitlement process), raw entitled land, land under development, and minerals. All assets included in the borrowing base must be wholly-owned and unencumbered. At second quarter-end 2012, net unused borrowing capacity under our senior secured credit facility is calculated as follows:

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	(In thousands)
Borrowing base availability	\$ 278,065
Less: borrowings	(130,000)
Less: letters of credit	(2,558)
Unused borrowing capacity	\$ 145,507

Our unused borrowing capacity in second quarter 2012 ranged from a high of \$162,147,000 to a low of \$145,507,000. This facility is used primarily to fund our operating cash needs, which fluctuate due to timing of residential real estate sales, undeveloped land sales, mineral lease bonus payments, timber sales, payment of payables and expenses and capital expenditures.

Our senior secured credit facility and other debt agreements contain financial covenants customary for such agreements including minimum levels of interest coverage and limitations on leverage. At second quarter-end 2012, we were in compliance with the financial covenants of these agreements.

The following table details our compliance with the financial covenants calculated as provided in the senior credit facility:

Financial Covenant	Requirement	Second Quarter-End 2012
Interest Coverage Ratio <sup>(a)</sup>	<sup>3</sup> 1.05:1.0	7.87:1.0
Revenues/Capital Expenditures Ratio <sup>(b)</sup>	<sup>3</sup> 1.00:1.0	1.59:1.0
Total Leverage Ratio <sup>(c)</sup>	£ 40%	27%
Net Worth <sup>(d)</sup>	> \$ 441 million	\$ 512 million
Collateral Value to Loan Commitment Ratio <sup>(e)</sup>	<sup>3</sup> 1.50:1.0	1.55 :1.0

- (a) Calculated as EBITDA (earnings before interest, taxes, depreciation and amortization), plus non-cash compensation expense, plus other non-cash expenses, divided by interest expense excluding loan fees. This covenant is applied at the end of each quarter on a rolling four quarter basis.
- (b) Calculated as total gross revenues, plus our pro rata share of the operating revenues from unconsolidated ventures, divided by capital expenditures. Capital expenditures are defined as consolidated development and acquisition expenditures plus our pro rata share of unconsolidated ventures' development and acquisition expenditures. This covenant is applied at the end of each quarter on a rolling four quarter basis.
- (c) Calculated as total funded debt divided by adjusted asset value. Total funded debt includes indebtedness for borrowed funds, secured liabilities and reimbursement obligations with respect to letters of credit or similar instruments. Adjusted asset value is defined as the sum of unrestricted cash and cash equivalents, timberlands, high value timberlands, raw entitled lands, entitled land under development, minerals business, other real estate owned at book value without regard to any indebtedness and our pro rata share of joint ventures' book value without regard to any indebtedness. This covenant is applied at the end of each quarter.
- (d) Calculated as the amount by which consolidated total assets exceeds consolidated total liabilities. At second quarter-end 2012, the requirement is \$441,000,000, computed as: \$441,000,000, plus 85 percent of the aggregate net proceeds received by us from any equity offering, plus 75 percent of all positive net income, on a cumulative basis. This covenant is applied at the end of each quarter.

(e)

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Calculated as the total collateral value of timberland, high value timberland and our minerals business, divided by total aggregate loan commitment. This covenant is applied at the end of each quarter.

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To make additional investments, acquisitions, or distributions, we must maintain available liquidity equal to the lesser of \$35,000,000 or 10% of the aggregate commitments in place. At second quarter-end 2012, the minimum liquidity requirement was \$33,000,000, compared with \$188,821,000 in actual available liquidity based on the unused borrowing capacity under our senior secured credit facility plus unrestricted cash and cash equivalents. The failure to maintain such minimum liquidity does not constitute a default or event of default of our senior secured credit facility.

In second quarter 2012, we obtained a loan for construction of a 289 unit multifamily project located in Austin which provides up to \$19,550,000 in financing. We have two interest rate options on the loan: (i) Base-Rate Option or (ii) LIBOR Option subject to the provisions of construction loan agreement. The Base-Rate Option is a fluctuating rate per annum equal to the sum of the Base-Rate plus 175 basis points. The Base-Rate is equal to the highest of (i) the lender's prime rate, (ii) the Federal Funds Open Rate plus 50 basis points, and (iii) the Daily LIBOR Rate plus 100 basis points. The LIBOR Option is a rate per annum fixed for the applicable LIBOR interest period equal to the LIBOR plus 225 basis points. The loan has an initial term of 36 months and may be extended for two additional 12-month periods based on certain specified conditions. At second quarter-end 2012, we have \$10,607,000 outstanding on this loan.

***Contractual Obligations and Off-Balance Sheet Arrangements***

In 2011, we began construction on a 289 unit multifamily project in Austin, Texas in which the estimated cost at completion, including land, is approximately \$33,865,000. At second-quarter end 2012, our investment in this project including land and construction in progress is \$29,011,000 with an estimated cost to complete construction of \$4,854,000.

In second quarter 2012, CJUF III RH Holdings, an equity method venture in which we own a 25 percent interest, obtained a senior secured construction loan in the amount of \$23,936,000 to develop a 257 unit multifamily property in downtown Austin. There is no significant balance outstanding at second quarter-end 2012. We have a construction completion guaranty, a repayment guaranty for 20 percent of the principal balance and unpaid accrued interest, and a standard non-recourse carve-out guaranty. The repayment guaranty will reduce from 20 percent to 0 percent upon achievement of certain conditions.

In second quarter 2012, FMF Peakview, an equity method venture in which we own a 20 percent interest, obtained a senior secured construction loan in the amount of \$31,550,000 to develop a 304 unit multifamily property in Denver. There is no balance outstanding at second quarter-end 2012. We have a construction completion guaranty, a repayment guaranty for 25 percent of the principal and unpaid accrued interest, and a standard non-recourse carve-out guaranty.

At second quarter-end 2012, we participate in three partnerships that have total assets of \$48,885,000 and total liabilities of \$79,764,000, which includes \$63,481,000 of borrowings classified as current maturities. These partnerships are managed by third parties who intend to extend or refinance these borrowings; however, there is no assurance that this can be done. Although these borrowings are guaranteed by third parties, we may under certain circumstances elect or be required to provide additional equity to these partnerships. We do not believe that the ultimate resolution of these matters will have a significant effect on our earnings or financial position. Our investment in these partnerships is \$1,678,000 at second quarter-end 2012. These three partnerships are variable interest entities.

**Cibolo Canyons San Antonio, Texas**

Cibolo Canyons consists of the JW Marriott® San Antonio Hill Country Resort & Spa development owned by third parties and a mixed-use development we own. We have \$80,561,000 invested in Cibolo Canyons at second quarter-end 2012.

***Resort Hotel, Spa and Golf Development***

In 2007, we entered into agreements to facilitate third party construction and ownership of the JW Marriott® San Antonio Hill Country Resort & Spa, which includes a 1,002 room destination resort and two PGA Tour® Tournament Players Club® (TPC) golf courses. Under these agreements, we agreed to transfer to third party owners 700 acres of undeveloped land, to provide \$30,000,000 cash and to provide \$12,700,000 of other consideration principally consisting of golf course construction materials, substantially all of which has been provided.

In exchange for our commitment to the resort, the third party owners assigned to us certain rights under an agreement between the third party owners and a legislatively created Special Improvement District (SID). This agreement includes the right to receive from the SID 9 percent of hotel occupancy revenues and 1.5 percent of other resort sales revenues collected as taxes by the SID through 2034. The amount we receive will be net of annual ad valorem tax reimbursements by the SID to the third party owners of the resort through 2020. In addition, these payments will be net of debt service, if any, on bonds issued by the SID collateralized by hotel occupancy tax and other resort sales tax through 2034.

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The amounts we collect under this agreement are dependent on several factors including the amount of revenues generated by and ad valorem taxes imposed on the resort and the amount of any applicable debt service incurred by the SID. As a result, there is significant uncertainty as to the amount and timing of collections under this agreement. Until these uncertainties are clarified, amounts collected under the agreement will be accounted for as a reduction of our investment in the resort development. The resort began operations on January 22, 2010.

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In second quarter 2012, we received \$300,000 in reimbursements from the SID. Since inception, we have received \$8,206,000 in reimbursements and have accounted for this as a reduction of our investment. At second quarter-end 2012, we have \$35,067,000 invested in the resort development.

### ***Mixed-Use Development***

The mixed-use development we own consists of 2,100 acres planned to include approximately 1,475 residential lots and 150 commercial acres designated for multifamily and retail uses, of which 705 lots and 68 commercial acres have been sold through second quarter-end 2012.

In 2007, we entered into an agreement with the SID providing for reimbursement of certain infrastructure costs related to the mixed-use development. Reimbursements are subject to review and approval by the SID and unreimbursed amounts accrue interest at 9.75 percent. The SID's funding for reimbursements is principally derived from its ad valorem tax collections and bond proceeds collateralized by ad valorem taxes, less debt service on these bonds and annual administrative and public service expenses. Through second quarter-end 2012, we have submitted and received approval for reimbursement of approximately \$57,322,000 of infrastructure costs and have received reimbursements totaling \$22,920,000. In second quarter 2012, we received \$400,000 in reimbursements from the SID. At second quarter-end 2012, we have \$34,402,000 in approved and pending reimbursements, excluding interest.

Since the amount of each reimbursement is dependent on several factors, including timing of SID approval and the SID having an adequate tax base to generate funds that can be used to reimburse us, there is uncertainty as to the amount and timing of reimbursements under this agreement. We expect to recover our investment from lot and tract sales and reimbursement of approved infrastructure costs from the SID. We have not recognized income from interest due, but not collected. As these uncertainties are clarified, we will modify our accounting accordingly.

At second quarter-end 2012, we have \$45,494,000 invested in the mixed-use development.

### **Critical Accounting Policies and Estimates**

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our 2011 Annual Report on Form 10-K.

### **Recent Accounting Standards**

Please read **Note 2** to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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A summary of our real estate projects in the entitlement process <sup>(a)</sup> at second quarter-end 2012 follows:

<b>Project</b>	<b>County</b>	<b>Market</b>	<b>Project Acres <sup>(b)</sup></b>
<b>California</b>			
Hidden Creek Estates	Los Angeles	Los Angeles	700
Terrace at Hidden Hills	Los Angeles	Los Angeles	30
<b>Georgia</b>			
Ball Ground	Cherokee	Atlanta	500
Crossing	Coweta	Atlanta	230
Fincher Road	Cherokee	Atlanta	3,890
Fox Hall	Coweta	Atlanta	960
Garland Mountain	Cherokee/Bartow	Atlanta	350
Home Place	Coweta	Atlanta	1,510
Martin s Bridge	Banks	Atlanta	970
Mill Creek	Coweta	Atlanta	770
Serenity	Carroll	Atlanta	440
Waleska	Cherokee	Atlanta	100
Wolf Creek	Carroll/Douglas	Atlanta	12,230
Yellow Creek	Cherokee	Atlanta	1,060
<b>Texas</b>			
Lake Houston	Harris/Liberty	Houston	3,700
San Jacinto	Montgomery	Houston	150
<b>Total</b>			<b>27,590</b>

<sup>(a)</sup> A project is deemed to be in the entitlement process when customary steps necessary for the preparation of an application for governmental land-use approvals, like conducting pre-application meetings or similar discussions with governmental officials, have commenced, or an application has been filed. Projects listed may have significant steps remaining, and there is no assurance that entitlements ultimately will be received.

<sup>(b)</sup> Project acres, which are the total for the project regardless of our ownership interest, are approximate. The actual number of acres entitled may vary.

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A summary of activity within our projects in the development process, which includes entitled <sup>(a)</sup>, developed and under development real estate projects, at second quarter-end 2012 follows:

Project	County	Market	Interest Owned (b)	Residential Lots <sup>(c)</sup>		Commercial Acres <sup>(d)</sup>		
				Lots Sold Since Inception	Lots Remaining	Acres Sold Since Inception	Acres Remaining <sup>(f)</sup>	
<b>Projects we own</b>								
<b>California</b>								
San Joaquin River	Contra Costa/Sacramento	Oakland	100%					288
<b>Colorado</b>								
Buffalo Highlands	Weld	Denver	100%		164			
Johnstown Farms	Weld	Denver	100%	140	472	2		7
Pinery West	Douglas	Denver	100%					111
Stonebraker	Weld	Denver	100%		603			
<b>Texas</b>								
Arrowhead Ranch	Hays	Austin	100%		259			6
Bar C Ranch	Tarrant	Dallas/Fort Worth	100%	292	907			
Barrington Kingwood	Harris	Houston	100%	23	157			
Cibolo Canyons	Bexar	San Antonio	100%	705	770	68		82
Harbor Lakes	Hood	Dallas/Fort Worth	100%	203	246	2		19
Hunter s Crossing	Bastrop	Austin	100%	390	100	38		71
La Conterra	Williamson	Austin	100%	93	407			58
Maxwell Creek	Collin	Dallas/Fort Worth	100%	769	230	10		
Oak Creek Estates	Comal	San Antonio	100%	116	531	13		
Summer Creek Ranch	Tarrant	Dallas/Fort Worth	100%	807	467	35		44
Summer Lakes	Fort Bend	Houston	100%	446	684	56		
Summer Park <sup>(g)</sup>	Fort Bend	Houston	100%		210	13		77
The Colony	Bastrop	Austin	100%	431	718	22		31
The Preserve at Pecan Creek	Denton	Dallas/Fort Worth	100%	356	438			7
Village Park	Collin	Dallas/Fort Worth	100%	472	288	3		2
Westside at Buttercup Creek	Williamson	Austin	100%	1,387	109	66		
Other projects (11)	Various	Various	100%	2,493	170	207		23
<b>Georgia</b>								
Seven Hills	Paulding	Atlanta	100%	646	441	26		113
The Villages at Burt Creek	Dawson	Atlanta	100%		1,715			57
Towne West	Bartow	Atlanta	100%		2,674			121
Other projects (17)	Various	Atlanta	100%	1,718	2,976	3		705
<b>Florida</b>								
Other projects (3)	Various	Tampa	100%	708	137			
<b>Missouri and Utah</b>								
Other projects (2)	Various	Various	100%	476	78			
					<b>12,671</b>	<b>15,951</b>	<b>564</b>	<b>1,822</b>



**Table of Contents****Projects in entities we consolidate****Texas**

City Park	Harris	Houston	75%	1,193	118	50	115
Lantana	Denton	Dallas/Fort Worth	55% <sup>(e)</sup>	876	1,416		
Stoney Creek	Dallas	Dallas/Fort Worth	90%	129	625		
Timber Creek	Collin	Dallas/Fort Worth	88%		614		
Other projects (3)	Various	Various	Various	6	203	16	148

**Georgia**

The Georgian	Paulding	Atlanta	75%	289	1,052		
				<b>2,493</b>	<b>4,028</b>	<b>66</b>	<b>263</b>

**Total owned and consolidated**

				<b>15,164</b>	<b>19,979</b>	<b>630</b>	<b>2,085</b>
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**Projects in ventures that we account for using the equity method****Texas**

Entrada	Travis	Austin	50%		821		
Fannin Farms West	Tarrant	Dallas/Fort Worth	50%	323	58		12
Harper's Preserve	Montgomery	Houston	50%	123	1,602		72
Lantana	Denton	Dallas/Fort Worth	Various <sup>(e)</sup>	1,450	82	16	42
Long Meadow Farms	Fort Bend	Houston	37%	942	853	107	192
Southern Trails	Brazoria	Houston	80%	538	445		
Stonewall Estates	Bexar	San Antonio	50%	295	93		
Other projects (1)	Nueces	Corpus Christi	50%				15
				<b>3,671</b>	<b>3,954</b>	<b>123</b>	<b>333</b>

**Combined total**

				<b>18,835</b>	<b>23,933</b>	<b>753</b>	<b>2,418</b>
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- (a) A project is deemed entitled when all major discretionary governmental land-use approvals have been received. Some projects may require additional permits or non-governmental authorizations for development.
- (b) Interest owned reflects our net equity interest in the project, whether owned directly or indirectly. There are some projects that have multiple ownership structures within them. Accordingly, portions of these projects may appear as owned, consolidated or accounted for using the equity method.
- (c) Lots are for the total project, regardless of our ownership interest. Lots remaining represent vacant developed lots, lots under development and future planned lots and are subject to change based on business plan revisions.
- (d) Commercial acres are for the total project, regardless of our ownership interest, and are net developable acres, which may be fewer than the gross acres available in the project.
- (e) The Lantana project consists of a series of 24 partnerships in which our voting interests range from 25 percent to 55 percent. We account for three of these partnerships using the equity method and we consolidate the remaining partnerships.
- (f) Excludes acres associated with commercial and income producing properties.
- (g) Formerly Waterford Park.

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A summary of our significant commercial and income producing properties at second quarter-end 2012 follows:

Project	County	Market	Interest Owned <sup>(a)</sup>	Type	Acres	Description
Broadstone Memorial	Harris	Houston	100%	Multifamily	9	401 unit luxury apartment
Radisson Hotel	Travis	Austin	100%	Hotel	2	413 guest rooms and suites
Las Brisas	Williamson	Austin	59%	Multifamily	30	414 unit luxury apartment
Promesa <sup>(b)(c)</sup>	Travis	Austin	100%	Multifamily	16	289 unit luxury apartment
Eleven <sup>(c)</sup>	Travis	Austin	25%	Multifamily	3	257 unit luxury apartment
360 <sup>o(c)</sup>	Arapahoe	Denver	20%	Multifamily	4	304 unit luxury apartment

(a) Interest owned reflects our total interest in the project, whether owned directly or indirectly.

(b) Formerly marketed as Ridge at Ribelin Ranch.

(c) Under construction. A project is deemed under construction when off-site or on-site staging or construction activities have commenced. Some projects may require additional permits or authorizations prior to commencing certain activities.

A summary of our oil and natural gas mineral interests <sup>(a)</sup> at second quarter-end 2012 follows:

State	Unleased	Leased <sup>(b)</sup>	Held By Production <sup>(c)</sup> (Net acres)	Total <sup>(d)</sup>
Texas	196,000	30,000	26,000	252,000
Louisiana	120,000	15,000	9,000	144,000
Georgia	156,000			156,000
Alabama	40,000			40,000
California	1,000			1,000
Indiana	1,000			1,000
	514,000	45,000	35,000	594,000

(a) Includes ventures.

(b) Includes leases in primary lease term or for which a delay rental payment has been received. In the ordinary course of business, leases covering a significant portion of leased net mineral acres may expire from time to time in a single reporting period.

(c) Acres being held by production are producing oil or natural gas in paying quantities.

(d) Texas, Louisiana, California and Indiana net acres are calculated as the gross number of surface acres multiplied by our percentage ownership of the mineral interest. Georgia and Alabama net acres are calculated as the gross number of surface acres multiplied by our estimated percentage ownership of the mineral interest based on county sampling. Excludes 477 net mineral acres located in Colorado, which includes 379 leased acres and 29 acres held by production.

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A summary of our Texas and Louisiana mineral acres <sup>(a)</sup> by county or parish at second quarter-end 2012 follows:

	Texas		Louisiana	
County	Net Acres	Parish	Net Acres	
Trinity	46,000	Beauregard	79,000	
Angelina	42,000	Vernon	39,000	
Houston	29,000	Calcasieu	17,000	
Anderson	25,000	Allen	7,000	
Cherokee	24,000	Rapides	1,000	
Sabine	23,000	Other	1,000	
Red River	14,000		144,000	
Newton	13,000			
San Augustine	13,000			
Jasper	12,000			
Other	11,000			
	252,000			

<sup>(a)</sup> Includes ventures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk****Interest Rate Risk**

Our interest rate risk is principally related to our variable-rate debt. Interest rate changes impact earnings due to the resulting increase or decrease in the cost of our variable-rate debt, which is \$172,012,000 at second quarter-end 2012 and \$191,656,000 at year-end 2011.

The following table illustrates the estimated effect on our pre-tax income of immediate, parallel, and sustained shifts in interest rates for the next 12 months on our variable-rate debt at second quarter-end 2012, with comparative year-end 2011 information. This estimate assumes that debt reductions from contractual payments will be replaced with short-term, variable-rate debt; however, that may not be the financing alternative we choose.

Change in Interest Rates	Second Quarter-End 2012	Year-End 2011
	(In thousands)	
+2%	\$ (3,279)	\$ (3,296)
+1%	(1,720)	(1,917)
-1%	1,720	1,917
-2%	3,440	3,833

**Foreign Currency Risk**

We have no exposure to foreign currency fluctuations.

**Commodity Price Risk**

We have no significant exposure to commodity price fluctuations.

**Item 4. Controls and Procedures**

(a) Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (or the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure

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controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and are effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**(b) Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report 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**

In connection with our definitive agreement to acquire Credo, four purported class action lawsuits and one lawsuit that seeks certification as a class action have been filed against Credo, its board of directors and us. These actions generally allege that Credo and its board of directors breached fiduciary duties to Credo stockholders with respect to the proposed transaction. The five actions also allege that we aided and abetted the alleged breaches. The plaintiffs' allegations include that the consideration to be paid pursuant to the definitive agreement to acquire Credo is inadequate. They seek remedies that include enjoining the defendants from consummating the proposed transaction and directing Credo's directors to exercise their fiduciary duties to obtain a transaction that is in the best interests of the Credo stockholders. We believe that the claims are entirely without merit and intend to defend the actions vigorously.

We are involved in various other legal proceedings that arise from time to time in the ordinary course of doing business and believe that adequate reserves have been established for any probable losses. We do not believe that the outcome of any of these proceedings should have a significant adverse effect on our financial position, long-term results of operations or cash flows. It is possible, however, that charges related to these matters could be significant to our results or cash flows in any one accounting period.

**Item 1A. Risk Factors**

There are no material changes from the risk factors disclosed in our 2011 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities <sup>(a)</sup>**

Period	Total Number of Shares Purchased <sup>(b)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month 1 (4/1/2012 - 4/30/2012)	18	\$ 15.20		5,092,305
Month 2 (5/1/2012 - 5/31/2012)	170	\$ 12.77		5,092,305
Month 3 (6/1/2012 - 6/30/2012)		\$		5,092,305
Total	188	\$ 13.01		

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- (a) On February 11, 2009, we announced that our Board of Directors authorized the repurchase of up to 7,000,000 shares of our common stock. We have purchased 1,907,695 shares under this authorization, which has no expiration date. We have no repurchase plans or programs that expired during the period covered by the table above and no repurchase plans or programs that we intend to terminate prior to expiration or under which we no longer intend to make further purchases.
- (b) Represents shares withheld to pay taxes in connection with vesting of restricted stock awards and exercises of stock options.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 10.1 Guaranty Agreement dated June 28, 2012 by Forestar (USA) Real Estate Group, in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 29, 2012).
- 10.2 Agreement and Plan of Merger, dated June 3, 2012, by and among CREDO Petroleum Corporation, Forestar Group Inc. and Longhorn Acquisition Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on June 4, 2012).
- 10.3 Voting Agreement, dated June 3, 2012, by and among Forestar Group Inc., James T. Huffman, RCH Energy Opportunity Fund III, LP and RCH Energy SSI Fund, LP (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 4, 2012).
- 10.4 Guaranty Agreement dated May 24, 2012 by Forestar (USA) Real Estate Group Inc. in favor of Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 29, 2012).
- 31.1 Certification of Chief Executive Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Exchange Act rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1 The following materials from Forestar's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

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**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.

FORESTAR GROUP INC.

Date: August 9, 2012

By: /s/ Christopher L. Nines  
Christopher L. Nines  
*Chief Financial Officer*

By: /s/ Charles D. Jehl  
Charles D. Jehl  
*Chief Accounting Officer*

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