

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

FORM 10-K

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

For the fiscal year ended September 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: 001-34055



**TIMBERLINE RESOURCES CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

Delaware

82-0291227

(State of other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

101 East Lakeside Avenue

Coeur d'Alene, Idaho

83814

(Address of Principal Executive Offices)

(Zip Code)

(208) 664-4859

(Registrant's Telephone Number, including Area Code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

**Title of Each Class**

**Name of Each Exchange on Which Registered**

Common Stock, \$0.001 par value

NYSE MKT

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") 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 (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the Registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. Yes ☐ No ☒

As of March 31, 2012, the aggregate market value of the 62,271,879 shares of common stock of the registrant issued and outstanding on such date, excluding 6,226,127 shares held by affiliates of the registrant as a group, was \$28,583,334. This figure is based on the closing sale price of \$0.51 per share of the Registrant's common stock on March 31, 2012 on the NYSE MKT.

Number of shares of Common Stock outstanding as of December 7, 2012: 62,271,879

**Documents incorporated by reference:** To the extent herein specifically referenced in Part III, portions of the Registrant's definitive Proxy Statement for the 2013 Annual General Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A. See Part III.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the exhibits attached hereto contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements concern the Company’s anticipated results and developments in the Company’s operations in future periods, planned exploration and development of its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. These statements include, but are not limited to, comments regarding:

- the establishment and estimates of mineralization and reserves;
- the grade of mineralization and reserves;
- anticipated expenditures and costs in our operations;
- planned exploration activities and the anticipated outcome of such exploration activities;
- plans and anticipated timing for obtaining permits and licenses for our properties;
- expected future financing and its anticipated outcome;
- anticipated liquidity to meet expected operating costs and capital requirements;
- our ability to obtain financing to fund our estimated expenditure and capital requirements; and
- factors expected to impact our results of operations.

Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects” or “does not expect”, “is expected”, “anticipates” or “does not anticipate”, “plans”, “estimates” or “intends”, or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events or results to differ from those expressed or implied by the forward-looking statements, including, without limitation:

- risks related to our properties being in the exploration or development stage;
- risks related our mineral operations being subject to government regulation;
- risks related to future legislation and administrative changes to mining laws;
- risks related to future legislation regarding climate change
- risks related to our ability to obtain additional capital to develop our reserves, if any;
- risks related to land reclamation requirements and costs;
- risks related to mineral exploration and development activities being inherently dangerous;
- risks related to our insurance coverage for operating risks;
- risks related to cost increases for our exploration and development projects;
- risks related to a shortage of equipment and supplies adversely affecting our ability to operate;
- risks related to mineral estimates;
- risks related to the fluctuation of prices for precious and base metals, such as gold, silver and copper;
- risks related to the competitive industry of mineral exploration;
- risks related to our title and rights in our mineral properties;
- risks related to integration issues with acquisitions;
- risks related to joint ventures and partnerships;
- risks related to our limited operating history;
- risks related the possible dilution of our common stock from additional financing activities;
- risks related to potential conflicts of interest with our management;
- risks related to our dependence on key management;
- risks related to our Lookout Mountain and other acquired growth projects;
- risks related to our business model;
- risks related to our Canadian regulatory requirements; and
- risks related to our shares of common stock.

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled “Risk Factors”, “Description of Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as required by law.

**We qualify all the forward-looking statements contained in this Annual Report by the foregoing cautionary statements.**

## PART I

### Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates

Certain of the technical reports referenced in this annual report use the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed in accordance with Canadian Securities Administrators' National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101"); however, these terms are not defined terms under the SEC's Industry Guide 7 ("Guide 7") and are normally not permitted to be used in reports and registration statements filed with the SEC. As a reporting issuer in Canada, we are required to prepare reports on our mineral properties in accordance with NI 43-101. We reference those reports in this annual report for informational purposes only and such reports are not incorporated herein by reference. Investors are cautioned not to assume that any part or all of mineral deposits in the above categories will ever be converted into Guide 7 compliant reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

### ITEM 1. DESCRIPTION OF BUSINESS

#### General

We were incorporated in the State of Idaho on August 28, 1968 under the name Silver Crystal Mines, Inc., to engage in the business of exploring for precious metal deposits and advancing them toward production. We ceased exploration activities during the 1990s and became virtually inactive. In December 2003, a group of investors purchased 80-percent of the issued and outstanding common stock from the then-controlling management team. In January 2004, we effected a one-for-four reverse split of our issued and outstanding shares of common stock and increased the number of our authorized shares of common stock to 100 million with a par value of \$.001. Unless otherwise indicated, all references herein to shares outstanding and share issuances have been adjusted to give effect to the aforementioned stock split.

On February 2, 2004, our name was changed to Timberline Resources Corporation. Since the reorganization, we have been in an exploration stage evaluating, acquiring and exploring mineral prospects with potential for economic deposits of precious and base metals. A prospect is defined as a mining property, the value of which has not been determined by exploration. On August 27, 2008 we reincorporated into the State of Delaware pursuant to a merger agreement approved by our shareholders on August 22, 2008.

In March 2006, we acquired Timberline Drilling, Inc. ("Timberline Drilling"), formerly known as Kettle Drilling, as a wholly-owned subsidiary. Timberline Drilling was formed in 1996 and provides mineral core drilling services to the mining and mineral exploration industries primarily in the western United States.

In July 2007, we closed our purchase of the Butte Highlands Gold Project. In October 2008, we announced that we had agreed to form a 50/50 joint venture with Small Mine Development ("SMD") at the Butte Highlands project. In July 2009, we finalized the joint venture agreement with Highland Mining, LLC (an affiliate of SMD) ("Highland") to create Butte Highlands JV, LLC ("BHJV"). Under terms of the joint venture agreement, development began in the summer of 2009, with Highland funding all mine development costs through development. Both Timberline's and Highland's 50-percent share of costs will be paid out of net proceeds from future mine production.

In June 2010, we closed our acquisition of Staccato Gold Resources Ltd., a Canadian-based resource company ("Staccato Gold") that was in the business of acquiring, exploring and developing mineral properties with a focus on gold exploration in the dominant gold producing trends in Nevada. As a result of this acquisition, we obtained Staccato's flagship gold exploration project ("Lookout Mountain"), and several other projects at various stages of exploration in the Battle Mountain/Eureka gold trend in north-central Nevada, along with Staccato Gold's wholly owned U.S. subsidiary, BH Minerals USA, Inc ("BH Minerals").

In September 2010, we closed our drilling services operation in Mexico which was operated by our wholly owned Mexican subsidiary, World Wide Exploration, S.A. de C.V. ("World Wide" or "WWE"), and moved substantially all of the assets of WWE to the United States to be available for use by Timberline Drilling.

In September 2011, we announced that we had entered into a non-binding letter of intent to sell Timberline Drilling to a private company formed by a group of investors, including certain members of the senior management team of Timberline Drilling. In November 2011, the sale of Timberline Drilling was completed for a total value of approximately \$15 million.

Unless otherwise indicated, any reference to "Timberline", or "we", "us", "our", etc. refers to Timberline Resources Corporation and/or all its subsidiaries, including Timberline Drilling (where applicable prior to its sale), Staccato Gold and BH Minerals.

#### Our Competition

The mineral exploration industry is intensely competitive in all phases. In our mineral exploration activities, we will compete with many companies possessing greater financial resources and technical facilities than we do for the acquisition of mineral concessions, claims, leases

and other mineral interests as well as for the recruitment and retention of qualified employees. We must overcome significant barriers to enter into the business of mineral exploration as a result of our limited operating history.

We cannot assure you that we will be able to compete in any of our business areas effectively with current or future competitors or that the competitive pressures faced by us will not have a material adverse effect on our business, financial condition and operating results.

### **Our Offices and Other Facilities**

We currently maintain our administrative office at 101 East Lakeside Ave., Coeur d'Alene, ID 83814. The telephone number is (866) 513-4859 (toll free) or (208) 664-4859. Timberline also maintains a geological staff office at 1112 River St., Elko, NV 89801.

### **Our Employees**

We are an exploration company and currently have eight employees, including certain officers and directors. Management expects to hire staff and additional management as necessary as implementation of our business plan requires.

Our former subsidiary, Timberline Drilling, had approximately 140 full-time employees in the U.S. We did not retain any of these employees subsequent to the sale of Timberline Drilling in November of 2011. Our remaining subsidiaries do not have any employees. We believe that our relationship with our employees is good.

### **Regulation**

The exploration and mining industries operate in a legal environment that requires permits to conduct virtually all operations. These permits are required by local, state and federal government agencies. Federal agencies that may be involved include: The U.S. Forest Service (USFS), Bureau of Land Management (BLM), Environmental Protection Agency (EPA), National Institute for Occupational Safety and Health (NIOSH), the Mine Safety and Health Administration (MSHA) and the Fish and Wildlife Service (FWS). Individual states also have various environmental regulatory bodies, such as Departments of Ecology. Local authorities, usually counties, also have control over mining activity. The various permits address such issues as prospecting, development, production, labor standards, taxes, occupational health and safety, toxic substances, air quality, water use, water discharge, water quality, noise, dust, wildlife impacts, as well as other environmental and socioeconomic issues.

Prior to receiving the necessary permits to explore or mine, a mine operator must comply with all regulatory requirements imposed by all governmental authorities having jurisdiction over the project area. Very often, in order to obtain the requisite permits, the operator must have its land reclamation, restoration or replacement plans pre-approved. Specifically, the operator must present its plan as to how it intends to restore or replace the affected area. Often all or any of these requirements can cause delays or involve costly studies or alterations of the proposed activity or time frame of operations, in order to mitigate impacts. All of these factors make it more difficult and costly to operate and have a negative and sometimes fatal impact on the viability of the exploration or mining operation. Finally, it is possible that future changes in these laws or regulations could have a significant impact on our business, causing those activities to be economically reevaluated at that time. For a more detailed discussion of governmental and environmental regulatory requirements applicable to our mineral exploration business see the section titled "Description of Properties - Overview of Regulatory, Economic and Environmental Issues" below.

### **Overview of Our Mineral Exploration Business**

We are a mineral exploration and development company. Mineral exploration is essentially a research activity that does not produce a product. Successful exploration often results in increased project value that can be realized through the optioning or selling of the claimed site to larger companies. We acquire properties which we believe have potential to host economic concentrations of minerals, particularly gold, silver and copper. These acquisitions have and may take the form of unpatented mining claims on federal land, or leasing claims, or private property owned by others. An unpatented mining claim is an interest that can be acquired to the mineral rights on open lands of the federally owned public domain. Claims are staked in accordance with the Mining Law of 1872, recorded with the federal government pursuant to laws and regulations established by the Bureau of Land Management (the Federal agency that administers America's public lands), and grant the holder of the claim a possessory interest in the mineral rights, subject to the paramount title of the United States.

We will perform basic geological work to identify specific drill targets on the properties, and then collect subsurface samples by drilling to confirm the presence of mineralization (the presence of economic minerals in a specific area or geological formation). We may enter into joint venture agreements with other companies to fund further exploration and/or development work. It is our plan to focus on assembling a high quality group of mid-stage mineral (gold, silver, and copper) exploration prospects, using the experience and contacts of the management group. By such prospects, we mean properties that may have been previously identified by third parties, including prior owners such as exploration companies, as mineral prospects with potential for economic mineralization. Often these properties have been sampled, mapped and sometimes drilled, usually with indefinite results. Accordingly, such acquired projects will either have some prior exploration history or will have strong similarity to a recognized geologic ore deposit model. We will place geographic emphasis on the western United States.

The focus of our activity has been to acquire properties that we believe to be undervalued; including those that we believe to hold previously unrecognized mineral potential. Properties have been acquired through the location of unpatented mining claims (which allow the claimholder the right to mine the minerals without holding title to the property), or by negotiating lease/option agreements. Our President, Chief Executive Officer and Chairman, Paul Dirksen, as well as our Vice President of Exploration, Steven Osterberg, have experience in

evaluating, staking and filing unpatented mining claims, and in negotiating and preparing mineral lease agreements in connection with those mining claims.

The geologic potential and ore deposit models have been defined and specific drill targets identified on the majority of our properties. Our property evaluation process involves using basic geologic fieldwork to perform an initial evaluation of a property. If the evaluation is positive, we seek to acquire it, either by staking unpatented mining claims on open public domain, or by leasing the property from the owner of private property or the owner of unpatented claims. Once acquired, we then typically make a more detailed evaluation of the property. This detailed evaluation involves expenditures for exploration work which may include rock and soil sampling, geologic mapping, geophysics, trenching, drilling, or other means to determine if economic mineralization is present on the property.

Portions of our mineral properties are owned by third parties, and leased to us, as outlined in the following table.

| Property Name    | Third Party                 | Number of Claims     | Area        | Agreements/Royalties                                                                                                                                                                                                                        |
|------------------|-----------------------------|----------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Butte Highlands  | Richardson Family Trust     | 4                    | 60 acres    | 3% to 4% Net Smelter Royalty ("NSR"); Annual lease payment of \$15,000 through 2012 and \$20,000 each year thereafter on October 1. Option to purchase property during lease term for \$2,000,000.                                          |
| Snowstorm        | Hecla Mining Company        | 38                   | 750 acres   | 4% NSR; Annual lease payment of \$1,000.                                                                                                                                                                                                    |
| Snowstorm        | Snowshoe Mining Company     | 6                    | 78 acres    | 3% NSR; Annual lease payment of \$15,000.                                                                                                                                                                                                   |
| Spencer          | Idaho Department of Lands   | Section 6, T12N R36E | 640 acres   | 5% NSR; Annual lease payment of \$640.                                                                                                                                                                                                      |
| White Rock       | Paul Schmidt & John Thomas  | 103                  | 2,060 acres | 3% NSR; Advance royalty payments, ranging from \$20,000 to \$50,000 annually; Option to purchase property during lease term for \$100,000.                                                                                                  |
| Toole Springs    | Bruce W. Miller             | 201                  | 4,020 acres | 3% NSR; Advance royalty payments, ranging from \$20,000 to \$100,000 annually.                                                                                                                                                              |
| Lookout Mountain | Rocky Canyon Mining Company | 373                  | 6,368 acres | 3.5% NSR royalty + 1.5% NSR royalty capped at \$1.5 million (excludes Trevor and Dave claims); 20 year lease term commencing June 1, 2008; annual advanced royalty payment of \$72,000. (Pending legal opinion, additional 2% NSR possible) |

All of the leases are contracts with varied terms, all of which provide for us to earn an interest in the property or receive a royalty. For additional information see "Description of Property" below.

Our strategy with properties deemed to be of higher risk or those that would require very large exploration expenditures is to present them to larger companies for joint venture. Our joint venture strategy is intended to maximize the abilities and skills of the management group, conserve capital, and provide superior leverage for investors. If we present a property to a major company and they are not interested, we will continue to seek an interested partner.

For our prospects where drilling costs are reasonable and the likelihood of success seems favorable, we will undertake our own drilling. The target depths, the tenor of mineralization on the surface, and the general geology of the area are all factors that determine the risk as calculated by us in conducting a drilling operation. Mineral exploration is a research and development activity and is, by definition, a high risk business that relies on numerous untested assumptions and variables. Accordingly, we make our decisions on a project by project basis. We do not have any steadfast formula that we apply in determining the reasonableness of drilling costs in comparison to the likelihood of success, i.e. in determining whether success seems "favorable."

## **Overview of Timberline Drilling, Incorporated – Our Former Wholly Owned Subsidiary**

In March 2006, Timberline acquired Kettle Drilling, Inc., which in September 2008 changed its name to Timberline Drilling, Inc. Timberline Drilling provides core drilling services to mining and mineral exploration companies, primarily in the western United States, combining state of the art equipment, world-class technical expertise, innovative thinking, and a strong safety record. Timberline Drilling specializes in underground drilling services in support of active mining operations and advanced exploration projects. Working primarily with established companies, its business is less cyclical than that of surface drillers at early-stage exploration sites, where supplies, infrastructure, and project funding are less predictable.

During the year ended September 30, 2010, due to a difficult operating environment, declining financial results, and increasing country-related risk, we decided to cease the operations of Timberline Drilling's wholly-owned Mexican subsidiary, World Wide. World Wide's drill rigs and related assets were moved back to the U.S. where they became available for use by Timberline Drilling.

During the year ended September 30, 2011, we announced that we had entered into a non-binding letter of intent to sell Timberline Drilling. During the year ended September 30, 2012, the sale of Timberline Drilling was completed for a total value of approximately \$15 million.

## **The Commodities Market**

The prices of gold and silver have fluctuated during the last several years, although the prices of gold and silver have both risen steadily over the past three years. In 2010, gold traded between approximately \$1,058 and \$1,421 per ounce, based on the London PM Fix Price. In 2011, gold traded between approximately \$1,319 and \$1,895, and in 2012 to date, gold has traded between approximately \$1,540 and \$1,792 (based on the London PM Fix Price). The price of gold based on the London PM Fix Price closed at \$1,694 on December 6, 2012.

In 2010, the price of silver per ounce ranged from approximately \$15.14 to \$30.70, based on the London Fix Price. In 2011, the price of silver ranged from approximately \$26.16 to \$48.70 per ounce, and in 2012 to date, silver has traded between approximately \$26.67 and \$37.23 (based on the London Fix Price). The price of silver based on the London Fix Price closed at \$32.83 on December 6, 2012.

## **Seasonality**

Seasonality in Nevada and Montana is not a material factor to our operations. Certain surface exploration work may need to be conducted when there is no snow on the ground but it is not a material issue.

## **ITEM 1A. RISK FACTORS**

An investment in an exploration stage mining company with a short history of operations such as ours involves an unusually high amount of risk, both known and unknown, present and potential, including, but not limited to the risks enumerated below.

Failure to successfully address the risks and uncertainties described below would have a material adverse effect on our business, financial condition and/or results of operations, and the trading price of our common stock may decline and investors may lose all or part of their investment. We cannot assure you that we will successfully address these risks or other unknown risks that may affect our business.

Estimates of mineralized material are forward-looking statements inherently subject to error. Although mineralization and reserve estimates require a high degree of assurance in the underlying data when the estimates are made, unforeseen events and uncontrollable factors can have significant adverse or positive impacts on the estimates. Actual results will inherently differ from estimates. The unforeseen events and uncontrollable factors include: geologic uncertainties including inherent sample variability, metal price fluctuations, variations in mining and processing parameters, and adverse changes in environmental or mining laws and regulations. We cannot accurately predict the timing and effects of variances from estimated values.

## **Risks Related To Our Company**

*We have a limited operating history on which to base an evaluation of our business and prospects.*

Although we have been in the business of exploring mineral properties since our incorporation in 1968, we were inactive for many years prior to our new management in January 2004. Since January 2004, we have not yet located any mineral reserve. As a result, we have not had any revenues from our exploration division. However, we have had a drilling services wholly-owned subsidiary which has generated revenues in past fiscal years. In addition, our operating history has been restricted to the acquisition and exploration of our mineral properties and this does not provide a meaningful basis for an evaluation of our prospects if we ever determine that we have a mineral reserve and commence the construction and operation of a mine. Other than through conventional and typical exploration methods and procedures, we have no additional way to evaluate the likelihood of whether our mineral properties contain any mineral reserve or, if they do that they will be operated successfully. As a result, we are subject to all of the risks associated with developing and establishing new mining operations and business enterprises including:

- completion of feasibility studies to verify reserves and commercial viability, including the ability to find sufficient gold reserves to support a commercial mining operation;
- the timing and cost, which can be considerable, of further exploration, preparing feasibility studies, permitting and construction of infrastructure, mining and processing facilities;

- the availability and costs of drill equipment, exploration personnel, skilled labor and mining and processing equipment, if required;
- compliance with environmental and other governmental approval and permit requirements;
- the availability of funds to finance exploration, development and construction activities, as warranted;
- potential opposition from non-governmental organizations, environmental groups, local groups or local inhabitants which may delay or prevent development activities;
- potential increases in exploration, construction and operating costs due to changes in the cost of fuel, power, materials and supplies; and
- potential shortages of mineral processing, construction and other facilities related supplies.

The costs, timing and complexities of exploration, development and construction activities may be increased by the location of our properties and demand by other mineral exploration and mining companies. It is common in exploration programs to experience unexpected problems and delays during drill programs and, if warranted, development, construction and mine start-up. Accordingly, our activities may not result in profitable mining operations and we may not succeed in establishing mining operations or profitably producing metals at any of our properties. There is no history upon which to base any assumption as to the likelihood that we will prove successful and we can provide investors with no assurance that we will generate any operating revenues or ever achieve profitable operations.

***We have a history of losses and expect to continue to incur losses in the future.***

We have incurred losses since inception and expect to continue to incur losses in the future. We incurred the following losses from continuing operations during each of the following periods:

- \$7,171,572 for the year ended September 30, 2012;
- \$6,835,866 for the year ended September 30, 2011; and
- \$5,843,114 for the year ended September 30, 2010.

We had an accumulated deficit of approximately \$38 million as of September 30, 2012. We expect to continue to incur losses unless and until such time as one of our properties enters into commercial production and generates sufficient revenues to fund continuing operations. We recognize that if we are unable to generate significant revenues from mining operations and dispositions of our properties, we will not be able to earn profits or continue operations. At this early stage of our operation, we also expect to face the risks, uncertainties, expenses and difficulties frequently encountered by companies at the start up stage of their business development. We cannot be sure that we will be successful in addressing these risks and uncertainties and our failure to do so could have a materially adverse effect on our financial condition.

### **Risks Associated With Mining and the Exploration Portion of Our Business**

***All of our properties are in the exploration or development stage. There is no assurance that we can establish the existence of any mineral reserve on any of our properties in commercially exploitable quantities. Until we can do so, we cannot earn any revenues from these properties and if we do not do so we will lose all of the funds that we expend on exploration. If we do not discover any mineral reserve in a commercially exploitable quantity, the exploration component of our business could fail.***

We have not established that any of our mineral properties contain any mineral reserve according to recognized reserve guidelines, nor can there be any assurance that we will be able to do so. A mineral reserve is defined by the Securities and Exchange Commission in its Industry Guide 7 (<http://www.sec.gov/divisions/corpfin/forms/industry.htm#secguide7>) as that part of a mineral deposit, which could be economically and legally extracted or produced at the time of the reserve determination. The probability of an individual prospect ever having a "reserve" that meets the requirements of the Securities and Exchange Commission's Industry Guide 7 is extremely remote; in all probability our mineral properties do not contain any 'reserve' and any funds that we spend on exploration will probably be lost. Even if we do eventually discover a mineral reserve on one or more of our properties, there can be no assurance that they can be developed into producing mines and extract those minerals. Both mineral exploration and development involve a high degree of risk and few properties which are explored are ultimately developed into producing mines.

The commercial viability of an established mineral deposit will depend on a number of factors including, by way of example, the size, grade and other attributes of the mineral deposit, the proximity of the mineral deposit to infrastructure such as a smelter, roads and a point for shipping, government regulation and market prices. Most of these factors will be beyond our control, and any of them could increase costs and make extraction of any identified mineral deposit unprofitable.

***Mineral operations are subject to applicable law and government regulation. Even if we discover a mineral reserve in a commercially exploitable quantity, these laws and regulations could restrict or prohibit the exploitation of that mineral reserve. If we cannot exploit any mineral reserve that we might discover on our properties, our business may fail.***

Both mineral exploration and extraction require permits from various foreign, federal, state, provincial and local governmental authorities and are governed by laws and regulations, including those with respect to prospecting, mine development, mineral production, transport, export, taxation, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Regarding our future ground disturbing activity on federal land, we will be required to obtain a permit from the US Forest Service or the Bureau of Land Management prior to commencing exploration. There can be no assurance that we will be able to obtain or



maintain any of the permits required for the continued exploration of our mineral properties or for the construction and operation of a mine on our properties at economically viable costs. If we cannot accomplish these objectives, our business could face difficulty and/or fail.

We believe that we are in compliance with all material laws and regulations that currently apply to our activities but there can be no assurance that we can continue to do so. Current laws and regulations could be amended and we might not be able to comply with them, as amended. Further, there can be no assurance that we will be able to obtain or maintain all permits necessary for our future operations, or that we will be able to obtain them on reasonable terms. To the extent such approvals are required and are not obtained, we may be delayed or prohibited from proceeding with planned exploration or development of our mineral properties.

Environmental hazards unknown to us, which have been caused by previous or existing owners or operators of the properties, may exist on the properties in which we hold an interest. In past years we have been engaged in exploration in northern Idaho, which is currently the site of a Federal Superfund cleanup project. Although we are no longer involved in this or other areas at present, it is possible that environmental cleanup or other environmental restoration procedures could remain to be completed or mandated by law, causing unpredictable and unexpected liabilities to arise. At the date of this Annual Report, we are not aware of any environmental issues or litigation relating to any of its current or former properties.

***Future legislation and administrative changes to the mining laws could prevent us from exploring our properties.***

New state and U.S. federal laws and regulations, amendments to existing laws and regulations, administrative interpretation of existing laws and regulations, or more stringent enforcement of existing laws and regulations, could have a material adverse impact on our ability to conduct exploration and mining activities. Any change in the regulatory structure making it more expensive to engage in mining activities could cause us to cease operations.

***Regulations and pending legislation governing issues involving climate change could result in increased operating costs, which could have a material adverse effect on our business.***

A number of governments or governmental bodies have introduced or are contemplating regulatory changes in response to various climate change interest groups and the potential impact of climate change. Legislation and increased regulation regarding climate change could impose significant costs on us, our venture partners and our suppliers, including costs related to increased energy requirements, capital equipment, environmental monitoring and reporting and other costs to comply with such regulations. Any adopted future climate change regulations could also negatively impact our ability to compete with companies situated in areas not subject to such limitations. Given the political significance and uncertainty around the impact of climate change and how it should be dealt with, we cannot predict how legislation and regulation will affect our financial condition, operating performance and ability to compete. Furthermore, even without such regulation, increased awareness and any adverse publicity in the global marketplace about potential impacts on climate change by us or other companies in our industry could harm our reputation. The potential physical impacts of climate change on our operations are highly uncertain, and would be particular to the geographic circumstances in areas in which we operate. These may include changes in rainfall and storm patterns and intensities, water shortages, changing sea levels and changing temperatures. These impacts may adversely impact the cost, production and financial performance of our operations.

***If we establish the existence of a mineral reserve on any of our properties in a commercially exploitable quantity, we will require additional capital in order to develop the property into a producing mine. If we cannot raise this additional capital, we will not be able to exploit the reserve, and our business could fail.***

If we do discover mineral reserves in commercially exploitable quantities on any of our properties, we will be required to expend substantial sums of money to establish the extent of the reserve, develop processes to extract it and develop extraction and processing facilities and infrastructure. There can be no assurance that a mineral reserve will be large enough to justify commercial operations, nor can there be any assurance that we will be able to raise the funds required for development on a timely basis. If we cannot raise the necessary capital or complete the necessary facilities and infrastructure, our business may fail.

***Land reclamation requirements for our properties may be burdensome and expensive.***

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on mineral exploration companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance.

Reclamation may include requirements to:

- control dispersion of potentially deleterious effluents; and
- reasonably re-establish pre-disturbance land forms and vegetation.

In order to carry out reclamation obligations imposed on us in connection with our potential development activities, we must allocate financial resources that might otherwise be spent on further exploration and development programs. We plan to set up a provision for our reclamation obligations on our properties, as appropriate, but this provision may not be adequate. If we are required to carry out unanticipated reclamation work, our financial position could be adversely affected.

***Mining exploration and development is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business and plans.***

Mining and mineral exploration involves various types of risks and hazards, including:

- environmental hazards;
- power outages;
- metallurgical and other processing problems;
- unusual or unexpected geological formations;
- personal injury, flooding, fire, explosions, cave-ins, landslides and rock-bursts;
- inability to obtain suitable or adequate machinery, equipment, or labor;
- metals losses;
- fluctuations in exploration, development and production costs;
- labor disputes;
- unanticipated variations in grade;
- mechanical equipment failure; and
- periodic interruptions due to inclement or hazardous weather conditions.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability.

***Mineral exploration and development is subject to extraordinary operating risks. We do not currently insure against these risks. In the event of a cave-in or similar occurrence, our liability may exceed our resources, which would have an adverse impact on our Company.***

Mineral exploration, development and production involve many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Our operations will be subject to all the hazards and risks inherent in the exploration, development and production of minerals, including liability for pollution, cave-ins or similar hazards against which we cannot insure or against which we may elect not to insure. Any such event could result in work stoppages and damage to property, including damage to the environment. We do not currently maintain any insurance coverage against these operating hazards. The payment of any liabilities that arise from any such occurrence would have a material, adverse impact on our Company.

***Increased costs could affect our financial condition.***

We anticipate that costs at our projects that we may explore or develop, will frequently be subject to variation from one year to the next due to a number of factors, such as changing ore grade, metallurgy and revisions to mine plans, if any, in response to the physical shape and location of the ore body. In addition, costs are affected by the price of commodities such as fuel, rubber, and electricity. Such commodities are at times subject to volatile price movements, including increases that could make production at certain operations less profitable. A material increase in costs at any significant location could have a significant effect on our profitability.

***A shortage of equipment and supplies could adversely affect our ability to operate our business.***

We are dependent on various supplies and equipment to carry out our mining exploration and, if warranted, development operations. The shortage of such supplies, equipment and parts could have a material adverse effect on our ability to carry out our operations and therefore limit or increase the cost of production.

***Estimates of mineralized material are subject to evaluation uncertainties that could result in project failure.***

Our exploration and future mining operations, if any, are and would be faced with risks associated with being able to accurately predict the quantity and quality of mineralized material within the earth using statistical sampling techniques. Estimates of any mineralized material on any of our properties would be made using samples obtained from appropriately placed trenches, test pits and underground workings and intelligently designed drilling. There is an inherent variability of assays between check and duplicate samples taken adjacent to each other and between sampling points that cannot be reasonably eliminated. Additionally, there also may be unknown geologic details that have not been identified or correctly appreciated at the current level of accumulated knowledge about our properties. This could result in uncertainties that cannot be reasonably eliminated from the process of estimating mineralized material. If these estimates were to prove to be unreliable, we could implement an exploitation plan that may not lead to commercially viable operations in the future.

***Mineral prices are subject to dramatic and unpredictable fluctuations.***

Other than from our drilling services subsidiaries, we expect to derive revenues, if any, from the eventual extraction and sale of precious and base metals such as gold and silver. The price of those commodities has fluctuated widely in recent years, and is affected by numerous factors beyond our control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of base and precious metals, and, therefore, the economic viability of any of our exploration projects, cannot accurately be predicted.

***The mining industry is highly competitive and there is no assurance that we will continue to be successful in acquiring mineral claims. If we cannot continue to acquire properties to explore for mineralized material, we may be required to reduce or cease exploration activity and/or operations.***

The mineral exploration, development, and production industry is largely un-integrated. We compete with other exploration companies looking for mineral properties and the minerals that can be produced from them. While we compete with other exploration companies in the effort to locate and license mineral properties, we do not compete with them for the removal or sales of mineral products from our properties if we should eventually discover the presence of them in quantities sufficient to make production economically feasible. Readily available markets exist worldwide for the sale of gold and other mineral products. Therefore, we will likely be able to sell any gold or mineral products that we identify and produce.

There are hundreds of public and private companies that are actively engaged in mineral exploration. A representative sample of exploration companies that are similar to us in size, financial resources and primary objective include such publicly traded mineral exploration companies as Midway Gold Corp. (MDW), General Moly, Inc. (GMO), Klondex Mines Ltd. (KDX.TO), Solitario Exploration and Royalty Corp. (XPL) and Mines Management (MGN).

Many of our competitors have greater financial resources and technical facilities. Accordingly, we will attempt to compete primarily through the knowledge and experience of our management. This competition could adversely affect our ability to acquire suitable prospects for exploration in the future. Accordingly, there can be no assurance that we will acquire any interest in additional mineral properties that might yield reserves or result in commercial mining operations.

***Third parties may challenge our rights to our mineral properties or the agreements that permit us to explore our properties may expire if we fail to timely renew them and pay the required fees.***

In connection with the acquisition of our mineral properties, we sometimes conduct only limited reviews of title and related matters, and obtain certain representations regarding ownership. These limited reviews do not necessarily preclude third parties from challenging our title and, furthermore, our title may be defective. Consequently, there can be no assurance that we hold good and marketable title to all of our mining concessions and mining claims. If any of our concessions or claims were challenged, we could incur significant costs and lose valuable time in defending such a challenge. These costs or an adverse ruling with regards to any challenge of our titles could have a material adverse effect on our financial position or results of operations. There can be no assurance that any such disputes or challenges will be resolved in our favor.

We are not aware of challenges to the location or area of any of our mining claims. There is, however, no guarantee that title to the claims will not be challenged or impugned in the future.

***Acquisitions and integration issues may expose us to risks.***

Our business strategy includes making targeted acquisitions. Any acquisition that we make may be of a significant size, may change the scale of our business and operations, and may expose us to new geographic, political, operating, financial and geological risks. Our success in our acquisition activities depends on our ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition and integrate the acquired operations successfully with our own. Any acquisitions would be accompanied by risks. For example, there may be significant decreases in commodity prices after we have committed to complete the transaction and have established the purchase price or exchange ratio; a potential materialized property may prove to be below expectations; we may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt our ongoing business and our relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. If we choose to use equity securities as consideration for such an acquisition, existing shareholders may suffer dilution. Alternatively, we may choose to finance any such acquisition with our existing resources. There can be no assurance that we would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

***Joint ventures and other partnerships in relation to our properties may expose us to risks.***

We are currently involved in, and may enter into in the future, joint ventures or other partnership arrangements with other parties in relation to the exploration, development and production of certain of the properties in which we have an interest, particularly the Butte Highlands project. Joint ventures can often require unanimous approval of the parties to the joint venture or their representatives for certain fundamental decisions such as an increase or reduction of registered capital, merger, division, dissolution, amendments of constituting documents, and the pledge of joint venture assets, which means that each joint venture party may have a veto right with respect to such decisions which could lead to a deadlock in the operations of the joint venture or partnership. Further, we may be unable to exert control over strategic decisions made in respect of such properties. Any failure of such other companies to meet their obligations to us or to third parties, or any disputes with respect to the parties' respective rights and obligations, could have a material adverse effect on the joint ventures or their properties and therefore could have a material adverse effect on our results of operations, financial performance, cash flows and the price of our common stock.

## **Risks Related To Our Company**

### ***Conflicts of Interest***

Certain of our officers and directors may be or become associated with other businesses, including natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. Our directors are required by Delaware Corporation law to act honestly and in good faith with a view to our best interests and to disclose any interest, which they may have in any of our projects or opportunities. In general, if a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter or, if he does vote, his vote will not be counted.

We have not adopted any separate formal corporate policy regarding conflicts of interest; however other corporate governance measures have been adopted, such as creating a directors' audit committee requiring independent directors. Additionally, our Code of Ethics does address areas of possible conflicts of interest. As of the date of filing of this report, we had four independent directors on our board of directors (Jim Moore, Vance Thornberry, Robert Martinez, and Troy Fierro). We have formed three committees to ensure our compliance with the requirements of the NYSE Amex. We established an independent audit committee consisting of two independent directors, both of whom were determined to be "financially literate" and one of whom was designated as the "financial expert". We also formed a compensation committee and a corporate governance and nominating committee, both of which are comprised entirely of independent directors. At this time, we feel that these committees and our Code of Ethics provide sufficient corporate governance for our purposes and will meet the specific requirements of the NYSE Amex.

### ***Dependence on Key Management Employees***

The nature of both sides of our business, our ability to continue our exploration and development activities and to develop a competitive edge in the marketplace depends, in large part, on our ability to attract and maintain qualified key management personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to attract and retain such personnel. Our development now and in the future will depend on the efforts of key management figures such as Paul Dirksen, Randal Hardy, Steven Osterberg and Craig Crowell. The loss of any of these key people could have a material adverse effect on our business. In this regard, we have attempted to reduce the risk associated with the loss of key personnel and have obtained directors and officers insurance coverage. In addition, we have expanded the provisions of our equity incentive plan so that we can provide incentives for our key personnel.

### ***We may not realize the benefits of the Lookout Mountain and other acquired growth projects.***

As part of our strategy, we will continue existing efforts and initiate new efforts to develop gold and other mineral projects. We have a large number of such projects, including the Lookout Mountain project. A number of risks and uncertainties are associated with the development of these types of projects, including political, regulatory, design, construction, labor, operating, technical and technological risks and uncertainties relating to capital and other costs and financing risks. The failure to successfully develop any of these initiatives could have a material adverse effect on our financial position and results of operations.

### ***As part of our business model, we pursue a strategy that may cause us to expend significant resources exploring properties that may not become revenue-producing sites, including the Lookout Mountain project.***

Part of our business model is to pursue a strategy which includes significant exploration activities, such as proposed exploration at the Lookout Mountain project. Because of the nature of exploration for precious metals, a property's exploration potential is not known until a significant amount of geologic information has been generated. We may spend significant resources exploring the Lookout Mountain project and gathering certain geologic information only to determine that the project is not capable of being a revenue-producing property for us.

### ***Our business is subject to evolving corporate governance and public disclosure regulations that have increased both our compliance costs and the risk of noncompliance, which could have an adverse effect on our stock price.***

We are subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including the SEC, the NYSE MKT, and the Financial Accounting Standards Board. These rules and regulations continue to evolve in scope and complexity and many new requirements have been created in response to laws enacted by Congress, making compliance more difficult and uncertain. For example, on July 21, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") with increased disclosure obligations for public companies and mining companies in the United States. Our efforts to comply with the Dodd-Frank Act and other new regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

### ***We are required to comply with Canadian securities regulations and be subject to additional regulatory scrutiny in Canada.***

We are a 'reporting issuer' in the Canadian provinces of British Columbia and Alberta. As a result, our disclosure outside the United States differs from the disclosure contained in our SEC filings. Our reserve and resource estimates disseminated outside the United States are not directly comparable to those made in filings subject to SEC reporting and disclosure requirements, as we generally report reserves and resources in accordance with Canadian practices. These practices are different from the practices used to report reserve and resource estimates in reports and other materials filed with the SEC. It is Canadian practice to report measured, indicated and inferred resources, which are generally not permitted in disclosure filed with the SEC. In the United States, mineralization may not be classified as a "reserve" unless the determination has been made that the mineralization could be economically and legally produced or extracted at the time the reserve determination is made. United States investors are cautioned not to assume that all or any part of measured or indicated resources will

ever be converted into reserves. Further, “inferred resources” have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Disclosure of “contained ounces” is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report “resources” as in place tonnage and grade without reference to unit measures. Accordingly, information concerning descriptions of mineralization, reserves and resources contained in disclosure released outside the United States may not be comparable to information made public by other United States companies subject to the reporting and disclosure requirements of the SEC.

We are also subject to increased regulatory scrutiny and costs associated with complying with securities legislation in Canada. For example, we are subject to civil liability for misrepresentations in written disclosure and oral statements. Legislation has been enacted in these provinces which creates a right of action for damages against a reporting issuer, its directors and certain of its officers in the event that the reporting issuer or a person with actual, implied or apparent authority to act or speak on behalf of the reporting issuer releases a document or makes a public oral statement that contains a misrepresentation or the reporting issuer fails to make timely disclosure of a material change.

We do not anticipate any particular regulation that would be difficult to comply with. However, failure to comply with regulations may result in civil awards, fines, penalties and orders that could have an adverse effect on us.

## **Risks Associated With Our Common Stock**

***Our stock price has been volatile and your investment in our common stock could suffer a decline in value.***

Our common stock is traded on the NYSE MKT and the TSX Venture Exchange. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include price fluctuations of precious metals, government regulations, disputes regarding mining claims, broad stock market fluctuations and economic conditions in the United States and Canada.

***We do not intend to pay any dividends on shares of our common stock in the near future.***

We do not currently anticipate declaring and paying dividends to our shareholders in the near future, and any future decision as to the payment of dividends will be at the discretion of our board of directors and will depend upon our earnings, financial position, capital requirements, plans for expansion and such other factors as our board of directors deems relevant. It is our current intention to apply net earnings, if any, in the foreseeable future to finance the growth and development of our business.

***Investors’ interests in our Company will be diluted and investors may suffer dilution in their net book value per share if we issue additional employee/director/consultant options or if we sell additional shares to finance our operations.***

We have not generated revenue from exploration since the commencement of our exploration stage in January 2004. In order to further expand our company and meet our objectives, any additional growth and/or expanded exploration activity may need to be financed through sale of and issuance of additional shares, including, but not limited to, raising finances to explore our South Eureka property. Furthermore, to finance any acquisition activity, should that activity be properly approved, and depending on the outcome of our exploration programs, we may also need to issue additional shares to finance future acquisitions, growth and/or additional exploration programs of any or all of our projects or to acquire additional properties. We may also in the future grant to some or all of our directors, officers, insiders, and key employees options to purchase our common shares as non-cash incentives. The issuance of any equity securities could, and the issuance of any additional shares will, cause our existing shareholders to experience dilution of their ownership interests.

If we issue additional shares or decide to enter into joint ventures with other parties in order to raise financing through the sale of equity securities, investors' interests in our Company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. As of the date of the filing of this report there are also outstanding options granted that are exercisable into 6,304,357 common shares. If all of these were exercised or converted, these would represent approximately 9% of our issued and outstanding shares. If all of these warrants and options are exercised and the underlying shares are issued, such issuance will cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the market price of our shares.

***We are subject to the continued listing criteria of the NYSE MKT and the TSX Venture Exchange (“TSX.V”) and our failure to satisfy these criteria may result in delisting of our shares of common stock.***

Our shares of common stock are currently listed on the NYSE MKT and the TSX.V. In order to maintain the listing, we must maintain certain share prices, financial, and share distribution targets, including maintaining a minimum amount of shareholders’ equity and a minimum number of public shareholders. In addition to objective standards, the NYSE MKT and the TSX.V may delist the securities of any issuer if, in its opinion, the issuer’s financial condition and/or operating results appear unsatisfactory; if it appears that the extent of public distribution or the aggregate market value of the security has become so reduced as to make continued listing on the NYSE MKT or TSX.V inadvisable; if the issuer sells or disposes of principal operating assets or ceases to be an operating company; if an issuer fails to comply with the listing requirements of the NYSE MKT or TSX.V; if an issuer’s shares of common stock sell at what the NYSE MKT or the TSX.V considers a “low selling price” and the issuer fails to correct this via a reverse split of shares after notification by the NYSE MKT or TSX.V; or if any other event occurs or any condition exists which makes continued listing on the NYSE MKT or TSX.V, in their opinion, inadvisable.

If the NYSE MKT or the TSX.V delists our shares of common stock, investors may face material adverse consequences, including, but not limited to, a lack of trading market for our securities, reduced liquidity, decreased analyst coverage of our securities, and an inability for us to obtain additional financing to fund our operations.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not Applicable.

## **ITEM 2. DESCRIPTION OF PROPERTIES**

### **Summary of Timberline's Mineral Exploration Prospects**

As of December 2012, we have acquired mineral prospects for exploration in Nevada, Montana and Idaho mainly for target commodities of gold, silver and copper. The prospects are held by both patented and unpatented mining claims owned directly by us or through legal agreements conveying exploration and development rights to us. Most of our prospects have had a prior exploration history, and this is typical in the mineral exploration industry. Most mineral prospects go through several rounds of exploration before an economic ore body is discovered and prior work often eliminates targets or points to new ones. Also, prior operators may have explored under a completely different commodity price structure or technological regime. Mineralization which was uneconomic in the past may be ore grade at current market prices when extracted and processed with modern technology.

### **Nevada Gold Properties**

#### ***South Eureka (Battle Mountain/Eureka Trend)***

We acquired the South Eureka property as part of our acquisition of Staccato Gold Resources Ltd. ("Staccato Gold") and its wholly owned subsidiary, BH Minerals USA, Inc. ("BH Minerals"), in June 2010. South Eureka comprises an area of approximately 15,000 acres or more than 23 square miles. The property's northern boundary is located approximately 1 mile south of the town of Eureka, Nevada, in the Eureka Mining district within the Battle Mountain – Eureka Mineral Trend, also referred to as the Cortez Trend.

The South Eureka property has no known reserves, as defined under Guide 7, and the proposed program for the property is exploratory in nature.

#### **Property Description**

The South Eureka property is located in the southern part of the Eureka mining district of Eureka County, Nevada, within T19N, R53E and unsurveyed T17N and T18N, R53E at the southern end of the Cortez Trend (Battle Mountain/Eureka Trend). The South Eureka property is also within the bounds of the United States Geological Survey ("USGS") 1:24,000 scale 7.5 minute topographic series maps of the Pinto Summit and Spring Valley Summit quadrangles.

### Explanation

#### Cities and Towns

● Eureka

#### Active Exploration

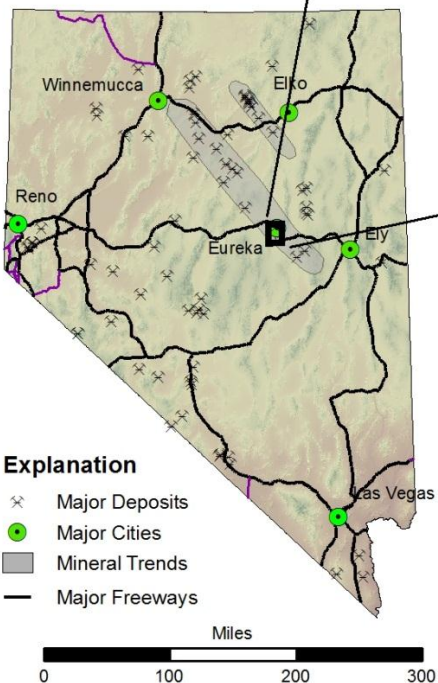
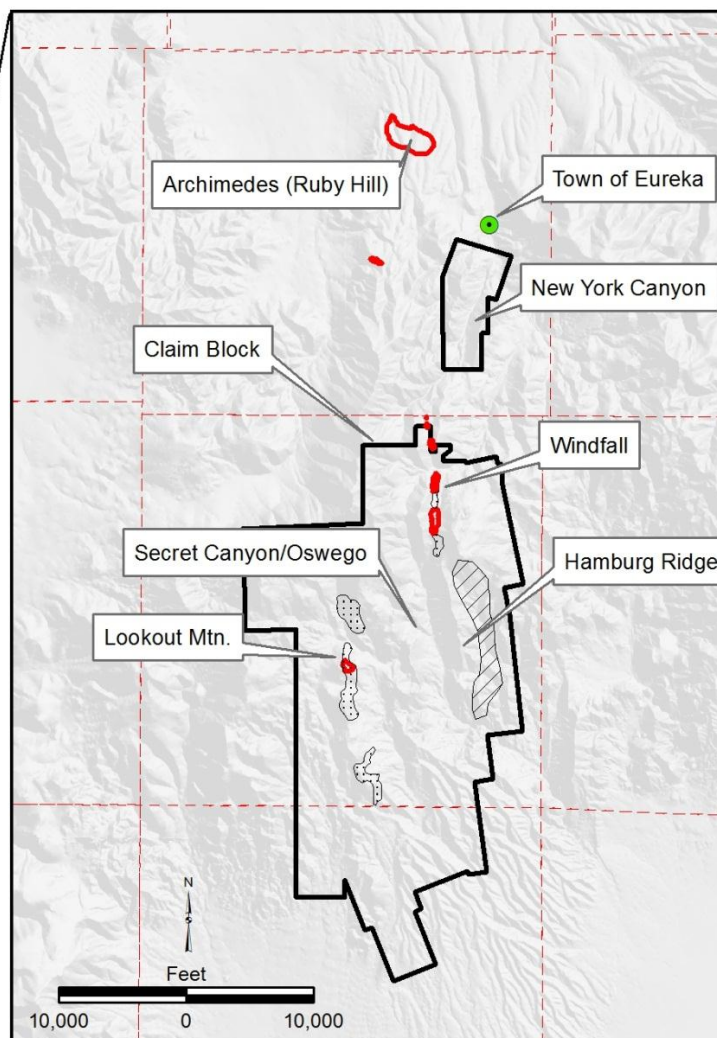
▨ High Priority

▨ Secondary

▨ Existing Open Pits

▨ Claim block

▨ Township Boundaries



### Explanation

✕ Major Deposits

● Major Cities

▨ Mineral Trends

— Major Freeways

|                                                                                                                   |                                   |
|-------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| <b>timberline BH MINERALS US INC.</b><br><small>A wholly owned subsidiary of Timberline Resources Company</small> |                                   |
| <b>South Eureka Project Location</b>                                                                              |                                   |
| <small>Eureka County, Nevada Township 18 North, Range 53 East, Secs. 2 and 11, M.D.B. &amp; M.</small>            |                                   |
| <small>Date:</small>                                                                                              | <small>September 30, 2011</small> |
| <small>Scale:</small>                                                                                             | <small>1:150,000</small>          |
|                                                                                                                   |                                   |
|                                                                                                                   |                                   |

All unpatented mining claims on the South Eureka property have been located under the General Mining Laws of the United States on US Bureau of Land Management ("BLM") managed lands.

We pay federal and county claim maintenance fees on the South Eureka property. The Federal claim is due to the BLM by September 1<sup>st</sup> each year, and the remainder is due to Eureka County by November 1<sup>st</sup> each year. The following table summarizes the claims and royalties for the South Eureka property:

**South Eureka Property Claim and Royalty Summary**

| <b>Property Name<br/>&amp; Agreements/Royalties</b>                                                                                                                                                                                                                                                                                                                                                                            | <b>Type of<br/>Claim</b> | <b>Number<br/>of Claims</b> | <b>Area</b>  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------------|--------------|
| <b>Lookout Mountain</b><br>Mining lease and agreement dated August 22, 2003, and amended on June 1, 2008, between Timberline and Rocky Canyon Mining Company; 3.5% Net Smelter Return (NSR) royalty + 1.5% NSR royalty capped at \$1.5 million (excludes Trevor and Dave claims); 20 year lease term commencing June 1, 2008; annual advanced royalty payment of \$72,000. (Pending legal opinion, additional 2% NSR possible) | Unpatented               | 378                         | 6,471 acres  |
| <b>South Ratto</b><br>Timberline holds title; 4% NSR                                                                                                                                                                                                                                                                                                                                                                           | Unpatented               | 108                         | 2,148 acres  |
| <b>Hamburg Ridge</b><br>Timberline holds title, under lease from DFH, a subsidiary of Royal Gold.<br><br>Timberline currently pays all claim fees.                                                                                                                                                                                                                                                                             |                          |                             |              |
| <b>Hoosac</b><br>4% NSR + 2% NSR + 0.75% NSR                                                                                                                                                                                                                                                                                                                                                                                   | Unpatented               | 98                          | 1,434 acres  |
| <b>Little Rosa</b><br>(Hoosac royalty applies)                                                                                                                                                                                                                                                                                                                                                                                 | Patented                 | 1                           |              |
| <b>North Amselco</b><br>4% NSR + 1% NSR + 1.6% NSR + 0.75% NSR                                                                                                                                                                                                                                                                                                                                                                 | Unpatented               | 94                          | 1,707 acres  |
| <b>Rambler</b><br>(North Amselco royalty applies)                                                                                                                                                                                                                                                                                                                                                                              | Patented                 | 1                           |              |
| <b>South Rustler/W-Claims</b><br>Claims owned by DFH Co., a subsidiary of Royal Gold, Inc. Draft agreement in place pursuant to which Timberline would acquire the 16 claims, subject to the following royalties: 4% NSR + 2% NSR + 0.75% NSR. The Hoosac/North Amselco lease agreement would then cancel.                                                                                                                     | Unpatented               | 16                          | 278 acres    |
| <b>Silverado/TL 12</b><br>1%-1.5% NSR pending agreement                                                                                                                                                                                                                                                                                                                                                                        | Unpatented               | 47                          | 971 acres    |
| <b>Secret Canyon/Oswego</b><br>Timberline holds title.<br>(Includes 2 mill sites on Syracuse 1 & 2)<br>(Pending legal opinion, 2% NSR possible)                                                                                                                                                                                                                                                                                | Unpatented               | 111                         | 1,937 acres  |
| 1% NSR                                                                                                                                                                                                                                                                                                                                                                                                                         | Patented                 | 6                           |              |
| <b>Windfall</b><br>Timberline holds title; 4% NSR                                                                                                                                                                                                                                                                                                                                                                              | Patented                 | 13                          | 166 acres    |
| <b>New York Canyon</b><br>Timberline holds title; 4% NSR + 1.5% NSR                                                                                                                                                                                                                                                                                                                                                            | Unpatented               | 45                          | 855 acres    |
| 3-5% NSR                                                                                                                                                                                                                                                                                                                                                                                                                       | Patented                 | 2                           |              |
| <b>Total Unpatented Lode Claims</b>                                                                                                                                                                                                                                                                                                                                                                                            |                          | <b>897</b>                  | 14,878 acres |
| <b>Total Patented Lode Claims</b>                                                                                                                                                                                                                                                                                                                                                                                              |                          | <b>23</b>                   |              |

We have the right to explore and develop the Lookout Mountain project subject to a mining lease and agreement dated August 22, 2003 with Rocky Canyon Mining Company, and amended on June 1, 2008. The lease term was extended to 20 years on June 1, 2008, and thereafter for as long as minerals are mined on the project. Advanced royalty payments are \$6,000 per month, or \$72,000 per annum. The work commitment on the project has been fulfilled. A 3.5% net smelter return royalty, plus a 1.5% net smelter return royalty capped at \$1.5



million (excludes Trevor and Dave claims) exists on the project. In addition, a 2% NSR royalty may exist, pending a legal opinion that is forthcoming.

During the year ended September 30, 2012, we acquired the Windfall Patents. The claims were acquired in exchange for \$400,000 cash as well as 919,935 shares of our common stock with a value of \$500,000, based upon the weighted average closing price of our common stock on the NYSE MKT during the 15 days prior to the acquisition. A 4% net smelter return royalty exists on the project.

The Secret Canyon/Oswego, South Ratto, and New York Canyon projects are owned by us subject to royalty agreements. Net smelter return royalties up to 5.5% exist on the projects. Pending a legal opinion that is forthcoming, the same 2% NSR royalty referenced above may exist on the Hiero/Syracuse project.

The Hamburg Ridge project is composed of the Hoosac, North Amselco, and South Rustler/W-claim groups. The Hoosac and North Amselco claims are owned by us and are currently under lease to DFH Co., a subsidiary of Royal Gold, Inc. No payments are due under the lease agreement. The South Rustler/W-Claims are owned by DFH Co. A draft agreement is in place pursuant to which we would acquire the South Rustler/W-Claims, and the Hoosac/North Amselco lease agreement would cancel. Net smelter return royalties ranging from 6.75% to 7.35% exist on the projects. We currently pay all of the claim maintenance fees for the Hamburg Ridge project.

#### Accessibility, Physiography, Climate and Infrastructure

The South Eureka property is located approximately one mile south and southwest of the town of Eureka, within the southern part of the Eureka Mining district of Eureka County, Nevada. The South Eureka property is located at the southeastern end of the Battle Mountain/Eureka Trend (Cortez Trend) of gold and base-metal deposits in north-central Nevada.

The South Eureka property is situated in north-central Nevada in an area with established mining infrastructure. Transmission power lines serve Eureka from the north. All essential services such as food and lodging are available in Eureka, including the dockage for shipments of heavy equipment. A small airport at Eureka is available for private air transport. Railroad access also is available in the area. The gold mines of north-central Nevada continue to produce a significant portion of the world's gold, and skilled miners and mining professionals are available in Eureka, and 100 miles to the north in Carlin, Elko, and Spring Creek. Permitting a mining operation in Nevada has been a process with which local, state and federal regulators are very familiar and generally cooperative.

Terrain on the South Eureka property is rugged, with high ridges, steep canyons, and narrow valleys. Elevations range from 7,000 to 9,000 feet. Ridges show abundant bedrock exposures, slopes and valleys are typically covered by soil and alluvium. Sagebrush abounds in lower-elevation areas while juniper and pinion cover the higher elevations. Grasses and shrubs grow on the highest ridge tops. The climate of the project area is semi-arid with the area receiving moderate winter snows and occasional summer thunderstorms, with heavy rain from time to time during otherwise hot and dry summers. In winter, access is not maintained off the paved roads and November snow commonly lingers until April.

U.S. Highway 50 passes to the east of the South Eureka property and access is gained by heading south out of Eureka on the Highway and connecting with unpaved local roads, some of which are periodically maintained by Eureka County. The turnoff for the New York Canyon claim group is about a half mile south of Eureka on U.S. Highway 50 and is an unpaved road running up New York Canyon to the east side of the claim group.

The Windfall group and the northern parts of the Hoosac and Lookout Mountain groups are accessed by the Windfall Canyon Road and its westward extension (the former haul road for the Lookout Mountain Mine), which turns southwest off U.S. Highway 50 approximately 2 miles south of Eureka.

The southern parts of the South Eureka property are accessed by traveling approximately 8 miles south of Eureka on U.S. 50 to South Gate, then 1 mile south-southwest on the Fish Creek Valley road to the unimproved Secret Canyon Road, then northwest to the southern part of the Hoosac claims. Approximately 2 miles from South Gate on the Fish Creek Valley Road, a turnoff to the west and northwest on the Ratto Canyon Road accesses the southern portion of the Lookout Mountain group. Many dirt tracks within the South Eureka property allow additional access.

Summer temperatures usually consist of many consecutive days of over 90° F (32.2° C), and temperatures can reach as high as 100° F (40.6° C) or more. Winter temperatures generally range from as cold as below 0° F (17.8° C) to usually in the 20° to 35° F (-6.67° to 1.7 ° C) range. Precipitation amounts vary from year to year, averaging about 10.0 inches (25.4 cm) for the area. Several feet of snow usually accumulate on the property during the winter months.

#### Historic Exploration

The most significant exploration on the South Eureka property has been the drilling programs mounted over recent years. Such exploration on the South Eureka property spans a period of over twenty years. Drilling on the Hoosac and Windfall claims date from Norse-Windfall (63 holes, 1970s-1980s), Amselco (8 holes, mid-1980s), Tenneco (18 holes, 1989-1991), Pathfinder (18 holes, 1993) and Pathfinder/Cambior (36 holes, 1995-1997). On the Lookout Mountain claim group, drilling programs began with Amselco (296 holes, 1978-1985) followed by the Windfall group (20 holes, 1986), EFL Gold Company (10 holes, 1990), Barrick (40 holes, 1992-93), and Echo Bay (70 holes, 1994-95). The drilling programs were conducted concurrent with and guided by extensive geologic mapping, geochemical rock and soil sampling programs and air and ground geophysics. Geological mapping and geochemical programs were very successful in discovering target areas characterized by permissive structures and traces of gold with arsenic, antimony, and mercury toxic element anomalies in soil and rock.

The methods of collection and analyses of some historical soil and rock samples were not always available in the data, but it is likely that the samples were collected, documented, prepared and analyzed to the standards of professional diligence and analytical techniques applicable at the time. The importance of a geochemical-geological exploration approach is evidenced by the fact that the drilling of many such anomalies has resulted in significant indications of disseminated gold mineralization. The Windfall, Rustler, and Paroni deposits on the Windfall claims and the Lookout Mountain group were discovered by drilling soil and rock anomalies in permissive structural and stratigraphic settings. Drill testing of several geochemical anomalies in permissive geological settings has also resulted in the discovery of several promising zones of gold mineralization on the Hamburg Ridge, Windfall, and Lookout Mountain claim groups. As yet, these zones have not been fully tested.

Amselco Exploration began exploring the Lookout Mountain project in 1978, conducting an extensive geologic mapping, soil and rock sampling and an initial 15-hole reverse circulation drilling program which tested gold mineralization along the Ratto Ridge Fault and associated geochemical anomalies and jasperoids developed along the N-S trending Ratto Ridge. This drilling discovered significant sediment-hosted disseminated gold mineralization at depth. Amselco drilled 296 holes between 1978 and 1985, also discovering five areas of gold mineralization along Ratto Ridge which contain partially developed gold resources. These areas are located at South Lookout Mountain, Pinnacle Peak, Triple Junction, South Ratto Ridge, and South Adit. In 1986, while Amselco was in process of becoming BP Minerals, Amselco management decided that the Lookout Mountain deposit was not of further interest even though their geologists reportedly believed the deposit had significant potential. The property was optioned to a joint venture of three companies which then owned Norse-Windfall Mines, the Eureka Venture.

Windfall continued work at Lookout Mountain, drilled 11 exploration holes, and decided that the deposit had a total of 446,246 in place tons with an average grade of 0.12 oz of gold/ton.

In 1990, EFL Gold Mines took bulk samples from the floor of the Lookout Mountain pit. These samples returned assays values ranging from 0.10 to 0.135 oz of gold/ton. EFL also drilled 9 holes, two of which, drilled 500 feet (152 meters) into the floor of the pit, showed both oxide and sulfide gold mineralization.

Barrick (1992-93) completed geologic mapping, took more than 500 soil samples to expand and fill in Amselco's soil grid, and drilled 42 widely spaced holes, primarily along Ratto Ridge. Drilling targeted favorable stratigraphy at depth near fault intersections. Barrick discovered that geochemical anomalies are apparently controlled by E-NE and N-NW to NW trending cross structures which intersect the N-S trending Ratto Ridge Fault. Much of the Barrick work focused on the deeper potential in Cambrian Dunderberg Shale east of the Ratto Ridge Fault, and potential in the Devonian Nevada Group, especially the Bartine Limestone west of the fault. Outcrops of Bartine Limestone in the area show weak gold mineralization, strong alteration, and anomalous pathfinder element geochemistry. Barrick drilled 42 holes to a maximum depth of approximately 1,300 feet and encountered several gold intercepts.

Work by Barrick also included air and ground geophysics, and a stratigraphic and mineralogic geochemical study in conjunction with geologic mapping to develop and prioritize several target areas. Approximately 800 rock samples were collected and had high-quality multi-element analyses run, ICP and graphite furnace analyses at MB Associates in California, and ICP and neutron activation analysis at Activation Laboratories in Canada. Mapping, together with results of the Magmchem geochemistry, indicated that mineralization was apparently strongly controlled by E-NE and N-NW to NW trending cross structures near or at the point they intersect the N-S trending Ratto Ridge Fault where the Cambrian Dunderberg Shale and Hamburg Dolomite occur. Ultimately, Barrick drilled 42 reverse circulation holes. However, geological and geochemical targets or additional drilling in areas of known mineralization previously discovered by Amselco found insufficient mineralization to meet Barrick's objectives. It should be noted that the potential for mineralization west of the Ratto Ridge crest has not been explored adequately.

Echo Bay (1993-95) not only worked Ratto Ridge but also acquired additional ground to the north, south, and southwest. They conducted mapping, sampling, and scattered drilling in the area, exploring deep high-grade potential in the Cambrian Dunderberg Shale and Hamburg Dolomite, and testing Devonian Nevada Group targets west of the Ratto Ridge Fault. Echo Bay drilled several promising holes, including drill hole EBR 27 which intersected 110 feet grading 0.043 oz of gold/ton in the Dunderberg, and drill hole EBR-9 which intersected 115 feet grading 0.043 oz of gold/ton in the Nevada Group. Offsets of EBR-9 found 90 feet grading 0.028 oz of gold/ton, and another hole which was lost before reaching planned depth found 45 feet of 0.024 oz of gold/ton. Further offsets of EBR-9 and several widely-spaced holes averaging 1,000 feet deep (EBR 15, 16, 17, 18, and 20) found some anomalous gold along Ratto Ridge but no major intercepts. Eventually, the Echo Bay project totaled 104 RC holes. Faced with depletion of budgets with no significant exploration success, the decline in gold prices and large land payments, Echo Bay decided to drop the property.

On the Windfall, Hamburg Ridge, and New York Canyon claim groups, Bill Wilson of the Idaho Mining Corp, then Windfall Venture, later Norse-Windfall, initiated reconnaissance mapping, soil and rock chip sampling, trenching, and drilling in the early 1970s. He noted that the original underground Windfall Mine, which was discovered in 1908 and produced approximately 65,000 tons of 'invisible gold' mineralized rock grading 0.368 oz/ton, was a Carlin-type sediment-hosted disseminated gold occurrence. Wilson's work emphasized the east side of Hamburg Ridge, the Windfall Trend, where he drilled, with conventional air rotary, holes F1 through F20, and Z-1 through Z-31, Z42, and ZA-1 on the current Windfall group. He drilled holes Z32-41 on the Hoosac group. The drill holes were generally from 50 to 250 feet deep. Six of Wilson's original forty-three Z-holes intersected gold mineralization exceeding 0.02 oz of gold/ton. This success led to infill drilling and the development of the Windfall open pit mine in 1975, and soon thereafter, the Rustler and Paroni open pit mines. Gold was extracted in a CN heap-leach operation from sanded and silicified dolomite and silicified shale.

No geologic maps exist from this period other than a few maps compiled from USGS work. Although many drill hole location maps are archived in Century Gold files, the coordinates for many drill hole collars are not available, very few collars are visible in the field, and assay data from infill drilling is poorly documented.

## Scoping Study

Staccato Gold retained SRK Consulting U.S. Inc. (SRK) to complete a preliminary economic scoping study of the Lookout Mountain project in 2007. The study was not completed when it became evident that more technical data was needed to assess the economics of the project, and that SRK had issues with some of the methodology used in the earlier mineralization estimate. Specifically, SRK identified that grade shells were not used appropriately to limit tons and grade estimation. In addition, SRK was of the opinion that insufficient geological constraints were employed in the mineralization estimation which could lead to inflated numbers. SRK also believed the density values used in the tonnage calculations were too high, and that in its opinion, additional density determinations were required to improve tonnage calculations in the Lookout Mountain mineralized material estimate.

## Technical Work Program

In order to improve understanding of the technical aspects of the project, address the issues noted by SRK, and evaluate the potential of the South Eureka property, Staccato Gold initiated a comprehensive work program in June 2008. The program included geologic modeling that incorporated structural and stratigraphic controls to mineralization, additional density determinations, and new drilling and metallurgical test data. Results of this work have been incorporated into TLR programs and have led to the resolution of the technical issues addressed by SRK. In 2009, SRK reassessed the property by developing a new mineralization model which never was published. Due to disagreements regarding geologic modeling with Staccato staff and technical parameters used in mineralization modeling, the program was terminated prior to the acquisition of Staccato in June of 2010.

The 2005-2007 core drilling program completed by Staccato Gold provided data to better define stratigraphy in the higher-grade breccia-hosted gold zones at the Lookout Mountain pit, and discovered new areas of mineralization. The core drilling and drill hole relogging program demonstrated the stratabound nature of gold mineralization in thick zones of collapse breccia within carbonate rock flanking the Ratto Ridge structural zone. Metallurgical and other technical characteristics of known mineralization at Lookout Mountain are currently being investigated.

We continue to work toward completion of a comprehensive technical work program at our South Eureka property. A large part of the Lookout Mountain project and Windfall project areas have now been mapped and sampled, including a detailed program conducted over the main mineralization area. The principal objectives of the mapping and sampling program are to characterize offsets along the main mineralized fault zones at Windfall and Lookout Mountain, identify orientations of mineralized cross structures intersecting the main structural zones, and follow up on soil anomalies. The mapping program, combined with surface sampling and acquisition of historic data, has provided a clearer understanding of the structures along the Ratto Ridge and Windfall areas, as well as identified several significant new exploration target areas.

Over 400 drill holes have been re-logged along Ratto Ridge to ensure geologic consistency with surface mapping, and based on this work, new geologic cross sections and plans have been constructed for the entire Lookout Mountain deposit. Geologic grade shells have also been built, and construction of a 3-D model of the geology, based on the results of historic drill re-logging and mapping efforts, is ongoing. This new work has led to an updated mineralization estimate that resolves past technical issues, and provides us with a plan for advancing the property into the scoping/pre-feasibility study phase following one more round of drilling.

An exploration Plan of Operations has been approved by the BLM and the State Department of Environmental Protection (NDEP) for the Lookout Mountain project. The Plan of Operations calls for approximately 246 acres of disturbance that can be accessed for use in a phased approach, and covers the entire Ratto Ridge structural zone. The Plan of Operations will allow us to complete additional infill, metallurgical, and exploration drilling necessary to advance the development of the Lookout Mountain project.

## Windfall

Staccato Gold initiated detailed mapping and sampling programs and completed a ten hole drill program totaling 8,030 feet at the Windfall Project in October 2009 on the South Eureka property. The drilling program focused on testing the extent of gold mineralization below the Windfall and Rustler open pits, located approximately 3 miles northeast of the main Lookout Mountain project mineralization area. The Windfall project is one of several prospective gold projects on our extensive South Eureka property in Nevada.

Results from the surface mapping program, review of historic production and geologic maps, and drilling indicate that high grade gold is locally controlled within cross structures cutting the main Windfall fault zone, at the contact between the Hamburg Dolomite and Dunderburg Shale. The 2009 drill program tested approximately 3,600 feet of the Windfall fault zone with wide spaced drilling. The Windfall fault zone is part of an extensive mineralized structural trend which extends for over 17,000 feet based on historic data.

All holes in the 2009 exploration program encountered thick intercepts of low grade gold (holes 5–12) or anomalous gold mineralization (holes 13 and 14) within the Windfall fault zone. The offset and exploration holes drilled define the Windfall fault zone as a (150 to 200 foot) thick zone striking roughly north-south and dipping approximately 60 degrees to the east, containing two or more significant zones of mineralization.

Five of the ten holes were drilled as offsets to follow up on the high grade gold intercept drilled in hole 4 (75 feet at 0.153 ounces of gold/ton), and five were drilled as exploratory holes to test the strike and dip extent of the Windfall fault zone. Several thick intercepts of gold mineralization were returned, including 135 feet at 0.011 ounces of gold/ton in hole 7, 135 feet at 0.016 ounces of gold/ton in hole 8, 115 feet at 0.010 ounces of gold/ton in hole 9, and 100 feet at 0.018 ounces of gold/ton in hole 11.

A secondary hanging wall structure identified by the mapping program was also encountered in drill holes 7, 8, 11, and 13 and is characterized by strong silicification and decalcification of Windfall Formation and Dunderberg shale in the hanging wall side of the fault, and Dunderberg shale and Hamburg Dolomite on the footwall side. Drilling indicates a down to the east offset of the Dunderberg – Hamburg contact. This secondary structure represents an attractive and untested target at depth.

Timberline continues to assess the potential of the prospective Windfall fault zone at depth and on strike along the regional trend, with additional surface mapping, sampling, geophysical surveys, and exploration drilling programs planned, including a 6 hole program that was completed during the year ended September 30, 2011.

#### South Eureka Property Ownership

Staccato amended the Lookout Mountain project lease agreement in June 2008. The lease term was extended to 20 years, and thereafter for as long as minerals are mined on the project. Advanced royalty payments are \$72,000 per annum. Pursuant to the amended lease, annual minimum exploration expenditures of \$250,000 are required for five years commencing on June 1, 2008, and an additional expenditure of \$250,000 is required before June 1, 2016, for a total minimum work commitment of \$1,500,000. Exploration expenditures in excess of \$250,000 in any year can be accumulated and carried forward and credited to expenditures required in succeeding years. We have fulfilled the work commitment on the Lookout Mountain project.

During the year ended September 30, 2012, we acquired the Windfall Patents. The claims were acquired in exchange for \$400,000 cash as well as 919,935 shares of our common stock with a value of \$500,000, based upon the weighted average closing price of our common stock on the NYSE MKT during the 15 days prior to the acquisition.

Other projects that comprise the extensive South Eureka property, including the Secret Canyon/Oswego, South Ratto and New York Canyon projects, and a large portion of the Hamburg Ridge project, are owned by us subject to underlying royalty agreements. We are in the process of consolidating the ownership of a portion of the Hoosac/North Amselco project that is currently held by another party.

#### South Eureka Exploration

We are of the opinion that the South Eureka property has excellent potential for continued exploration success both at the deposit scale and on the regional scale. The current Lookout Mountain mineralization is defined over a relatively small area at the north end of a mineralized structural corridor that extends for several thousand feet across the property, and up to 4 to 5 kilometers (2.5 to 3 miles) in strike length. This structure hosts several areas of drill indicated mineralization and the exploration potential in this corridor is strong, as evidenced by historic drilling, and soil and rock geochemical analyses. The Lookout Mountain mineralization itself is open for expansion at depth and along strike, especially to the south. Regionally, several other target areas also exist where historic production and exploration have occurred, but only limited systematic exploration has been conducted.

In 2010 and 2011, we completed aggressive exploration work programs totaling approximately \$4,800,000 on the South Eureka property. Program objectives were to obtain sufficient data to complete an initial NI 43-101 compliant technical report, conduct initial gold recovery studies, initiate environmental baseline investigations, better understand the controls of mineralization, and to outline additional exploration drill targets. The 2010-2011 program achieved these corporate objectives through:

- 7,500 feet of core drilling focused primarily for metallurgical scoping studies;
- 30,000 feet of reverse circulation (RC) drilling directed primarily at resource in-fill definition drilling
- Drill testing of high grade sulfide lenses within the oxide mineralization to better understand the geologic controls and geometry;
- Metallurgical testing on core samples to initially define heap leach characteristics and process parameters;
- Channel sampling and bulk sampling within the historic Lookout Mountain pit for bench-scale metallurgical testing;
- Identification of additional exploration targets on the South Eureka Property outside of the main Lookout Mountain Project area through detailed geologic mapping and sampling.

An initial technical report entitled, *Technical Report on the Lookout Mountain Project, Eureka County, Nevada, USA*, compliant with NI 43-101 ("Technical Report"), was completed on May 2, 2011. The Technical Report was prepared by Mine Development Associates ("MDA") of Reno, Nevada under the supervision of Michael M. Gustin, Senior Geologist, who is a qualified person under NI 43-101. The Technical Report details mineralization at the Lookout Mountain Project. In addition, significant exploration potential is noted.

Cautionary Note to U.S. Investors: The Technical Report uses the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. See "Cautionary Note to U.S. Investors Regarding Mineral Reserve and Resource Estimates" above.

The NI 43-101 compliant technical report was modeled and estimated by MDA by statistical evaluation of available drill data utilizing geologic interpretations provided by us. The geologic interpretations were used to constrain gold mineral domains on vertical cross sections spaced at 50- to 100-foot intervals across the extents of the Lookout Mountain mineralization. The cross sections were rectified to the mineral-domain interpretations on level plans spaced at 10-foot intervals, analyzing the modeled mineralization geostatistically to aid in the establishment of estimation parameters, and interpolating grades into a three-dimensional block model.

With success in the 2010 and 2011 programs at South Eureka, we initiated and completed approximately \$4,200,000 of follow-up work in 2012. The 2012 program focused on advancement of mineralization, metallurgical, geotechnical, and permitting studies in preparation for a Preliminary Economic Analysis and included:

- 16,965 feet of RC drilling directed at resource in-fill and definition;
- 9,175 foot diamond drilling program focused primarily on obtaining drill core for process metallurgical and geotechnical scoping studies;
- Drilling and construction of additional groundwater monitoring wells for hydrological characterization;
- Initiation of geotechnical pit-wall stability, and heap leach pad alternative studies; and
- Initiation of additional baseline hydrology and environmental geochemistry studies directed at State and BLM permitting.

Regional exploration was also advanced in the district during 2012. With previous work, geologic mapping and ground magnetic surveys undertaken during the year complete district wide coverage.

Key successes of the 2012 drill program include demonstration of strong continuity in mineralization at the Lookout Mountain Project, and initial identification of high grade gold mineralization down-dip of the current mineralization. The final drill results of the 2011 program were successfully incorporated into the NI 43-101 compliant "*Updated Technical Report on the Lookout Mountain Project, Eureka County, Nevada, USA*" issued by MDA on May 31, 2012.

The favorable results of the 2012 program dictate that we will proceed with a preliminary economic assessment of the Lookout Mountain Project which is planned for completion in 2013. Ongoing metallurgical, geotechnical, and environmental studies will be included in this assessment.

In anticipation of a favorable preliminary economic assessment, we plan in 2013 to complete additional detailed engineering and environmental studies to support project prefeasibility analysis. This analysis would allow expeditious completion of an environmental impact study. Assuming the availability of funding to undertake our exploration program, we expect that total expenditures on South Eureka during fiscal 2013 will be approximately \$6.5 million. These expenditures are discretionary and may be scaled back depending upon the availability of capital to us.

#### ***ICBM Project***

The ICBM Joint Venture Project (Timberline/Barrick) is located in the Battle Mountain Mining District, Lander County, Nevada. The land position consists of 526 hectares (1,300 acres) on BLM administered lands. The drilling to date has demonstrated that mineralization is present and is localized along the contacts of Cambrian sediments and altered granodiorite. This style of mineralization is being mined at Newmont's Fortitude/Phoenix complex to the south. We are the operator of the joint venture, and currently hold a 72% interest in the project, with Barrick Gold holding the remaining interest.

As of September 30, 2012, we do not consider the ICBM prospect to be a material property. No material future expenditures are planned on the prospect at this time.

#### ***White Rock Project***

In January 2011 we entered into a mining lease, with an option to purchase a 100% interest, for the White Rock property, which encompasses 2,060 acres in the northeastern portion of Elko County, Nevada. The terms of the agreement to earn a 100% interest include a series of advance royalty payments, ranging from \$20,000 to \$50,000 annually, a 3% NSR, and an option to purchase all claims comprising the property for \$100,000.

The White Rock property is an exploration project encompassing a large, low grade, structurally controlled epithermal gold system with similarities to other well-known Nevada gold deposits such as Sleeper, Paradise Peak and Aurora/Borealis. Historical exploration during the period from 1988 to 1994 validated widespread gold mineralization within the property. Since acquiring the property, we have completed detailed geologic mapping, soil and rock chip geochemical sampling, ground magnetics survey, and spectrophotometry surveys. In addition, planning and permitting is in progress with regulators in anticipation of a future surface drilling program. However, as of September 30, 2012, we do not consider White Rock to be a material property and no material expenditures are planned at this time.

#### ***Toole Springs Project***

In August 2011 we entered into a mining lease, with an option to purchase a 100% interest, for the Red Rock Project and Cedar Project, collectively referred to as the Toole Springs Project, which encompasses 4,020 acres along the Carlin Trend in Elko County, Nevada. The terms of the agreement to earn a 100% interest include a series of advance royalty payments, ranging from \$20,000 to \$100,000 annually and a 3% NSR.

The Toole Springs Project represents an early stage gold exploration target. It is located in favorable stratigraphy within the Carlin Trend and is a pediment play (gravel covered). Very limited exploration was completed in 2012 including compilation of historic data, a ground magnetic survey, and biogeochemical sampling. We anticipate undertaking limited additional surface exploration work on the Project in the

future, to be followed by a drilling program. However, as of September 30, 2012, we do not consider Toole Springs to be a material property and no material expenditures are planned at this time.

### ***Seven Troughs District***

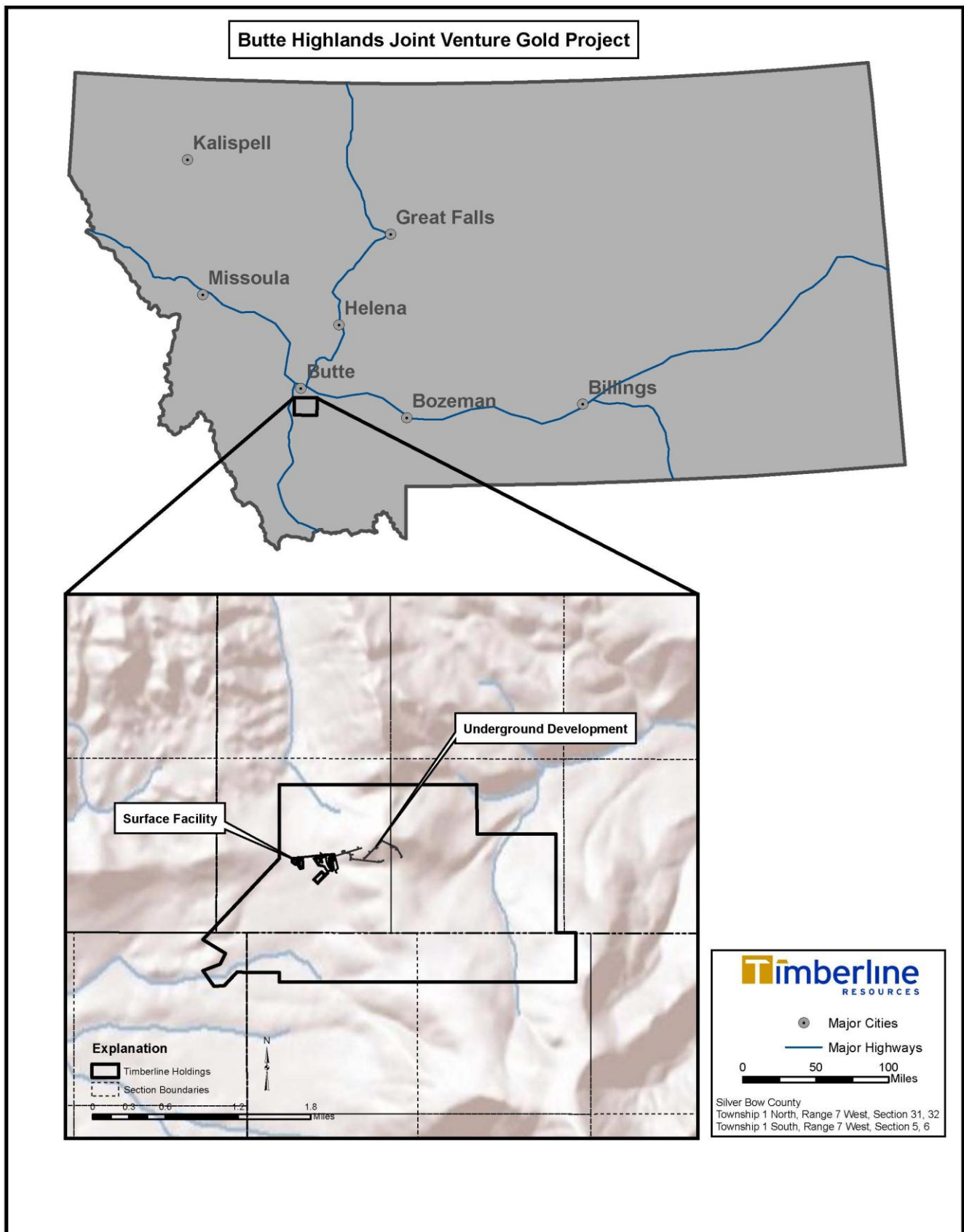
During the year ended September 30, 2012, we announced the acquisition from CIT Microprobe Holdings, LLC (California Institute of Technology) ("CIT") of a large block (3,900 acres) of patented and unpatented mining claims comprising essentially the entire Seven Troughs gold mining district near Lovelock, Nevada. Terms of the purchase agreement included a cash payment of \$50,000 and a 2-percent NSR production royalty reserved to CIT, with a standard royalty buy down clause.

Seven Troughs is an epithermal gold district recognized as yielding some of the highest gold production grades in Nevada history through small-scale operations in the early 20<sup>th</sup> century. We believe the district has the potential to host a large precious metals system similar to the high-grade gold and silver veins of Japan's world-renowned Hishikari epithermal gold mine.

We are under no obligation to make exploration expenditures at Seven Troughs. In 2012, following the acquisition, we initiated compilation of historic data, and completed a limited geochemical sampling and spectrophotometry survey within the district. As of September 30, 2012, we do not consider Seven Troughs to be a material property nor are any material expenditures planned at this time.

Montana Gold Properties

*Butte Highlands Gold Project*



In July 2007, we closed our purchase of the Butte Highlands Gold Project, including 100-percent ownership of mineral rights, from Butte Highlands Mining Company for \$405,000 cash and 108,000 shares of our common stock. The project is located approximately 15 miles south of Butte, Montana in Silver Bow County. The property covers 1,142 acres consisting of a combination of patented and unpatented mining claims situated within Sections 31 and 32, Township 1 North, Range 7 West; Sections 5 and 6, Township 1 South, Range 7 West; and Section 1, Township 1 South, Range 8 West, Montana Principal Meridian. The property can be accessed utilizing motor vehicle via State Highway 2 and County and US Forest Service maintained, improved surface roads. The project is within a favorable geologic domain that has hosted several multi-million ounce gold deposits.

In October 2008, we announced that we had agreed to form a 50/50 joint venture with Small Mine Development (“SMD”) at the Butte Highlands project. In July 2009, we finalized the joint venture agreement with Highland Mining, LLC (“Highland”) (an entity controlled by Ron Guill, a director of the Company, to create Butte Highlands JV, LLC (“BHJV”). Under terms of the joint venture agreement, development began in the summer of 2009, with Highland funding all costs through development. Both Timberline’s and Highland’s 50-percent share of costs will be paid out of proceeds from future mine production. Under the terms of the operating agreement, filed with this Annual Report as Exhibit 10.18, Highland will have preferential rights with respect to distributions until our investment is deemed equal to the investment by Highland. During the year ended September 30, 2012, Ron Guill, a director of the Company, sold his interest in Highland to a private corporation unrelated to the Company or to Mr. Guill.

During fiscal 2011, BHJV advanced Butte Highlands towards production through completion of the underground exploration ramp and a 52,000 foot underground core drilling program. The program was designed to collect definition drill data to facilitate, with our assistance, a mine model for production planning purposes during the early years of the mine’s production life. In addition, BHJV continued to collect environmental baseline data as part of its application for an operating permit that was initially submitted during the year ended September 30, 2010 with the Montana State Department of Environmental Quality (“MTDEQ”) to commence gold mining operations. Subsequent to our fiscal year end, but prior to filing this report, we received a notice of completeness and compliance from the MTDEQ, as well as a draft operating permit. It is anticipated that the MTDEQ will issue the final operating permit in 2013.

Activities at Butte during fiscal 2012 focused on advancing mine permitting. Supplemental baseline data to support the operating permit application was collected and provided to regulators. This data included characterization of wetlands, faunal study, surface water hydrology investigations, geochemistry, and an initial project water balance analysis. In addition, a Montana Pollutant Discharge Elimination System (MPDES) permit application was submitted and officially accepted by the MTDEQ. This permit is a critical requirement for further underground exploration and mine operation; permit receipt is also anticipated in 2013.

Permitting has also advanced during 2012 with submittal of a Special Use Permit application with the United States Forest Service (“USFS”) for ore haulage road use. The USFS completed site investigations and continues processing the application, which is anticipated for completion in 2013.

Once the operating and MPDES permits are granted by the MTDEQ, we expect BHJV to transition directly from exploration to gold mining operations.

Highland, our 50/50 joint venture partner on the project, will carry all costs incurred on the project until mining operations commence. We expect that the total costs incurred by Highland on the project to reach this milestone will be approximately \$35 to 40 million.

#### **Butte Highlands Claim Summary**

| <b>Claim Name(s)</b> | <b>Claim Type</b> | <b>Land Type</b> | <b>Rights</b>       | <b>Ownership</b>                               |
|----------------------|-------------------|------------------|---------------------|------------------------------------------------|
| BHC 1 thru BHC 61    | Unpatented lode   | Federal          | mineral             | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Humbag Hill 01-20    | Unpatented lode   | Federal          | mineral             | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| J.B. Thompson        | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Main Ripple          | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Murphy               | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Only Chance          | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Purchase             | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Red Mountain         | Patented lode     | Private          | mineral and surface | 50 % Timberline Resources Corp. <sup>(1)</sup> |
| Main Chance          | Patented lode     | Private          | mineral and surface | 100 % Richardson Family Trust <sup>(2)</sup>   |
| Island               | Patented lode     | Private          | mineral and surface | 100 % Richardson Family Trust <sup>(2)</sup>   |
| Atlantic             | Patented lode     | Private          | mineral and surface | 100 % Richardson Family Trust <sup>(2)</sup>   |
| Barnard              | Patented lode     | Private          | mineral and surface | 100 % Richardson Family Trust <sup>(2)</sup>   |
| Pony Placer          | Patented Lode     | Private          | surface             | 50 % Timberline Resources Corp. <sup>(1)</sup> |

<sup>(1)</sup> Claims are owned 100% by Butte Highlands JV, LLC, in which Timberline Resources owns a 50% interest.

<sup>(2)</sup> Timberline holds a lease option agreement on these claims subject to a mining lease/option to purchase agreement dated October 1, 2009.



All of the unpatented claims are exploration lode claims legally located under federal and state guidelines whereas each claim is 600 feet by 1500 feet encompassing 20 acres. Each claim is clearly marked with a 4 inch by 4 inch post or equivalent tree at each corner and a location monument is erected along the center line of the long direction of the claim. All BLM maintenance requirements have been met.

All of the private lands within the Butte Highlands property are historic lode and placer claims which were patented through the U.S. Government patent process. We are responsible for paying yearly BLM maintenance fees on all unpatented mining claims and Montana state property taxes on all patented lands. All associated taxes and fees are paid up to date as of September 30, 2012. Electricity and water are readily available on the property. If necessary, additional electricity requirements may be met by augmenting the currently available electrical supply with generator power.

On October 1, 2009, we signed a Mining Lease/Option to Purchase Agreement with the Richardson Family Trust for certain patented claims as detailed in the table above. The agreement calls for an initial payment of \$20,000 with annual payments of \$15,000, increasing to \$20,000 plus an annual inflation adjustment by October 2013, and remaining at that level thereafter. We will pay a 3-4% NSR royalty on any production from the Richardson Family Trust property, based upon the sale price of minerals produced from the property.

Gold mineralization at Butte Highlands is hosted primarily in lower Paleozoic Wolsey shale with higher-grade mineralization occurring within the sediments proximal to diorite sills and dikes. Between 1988 and 1996, prior operators Placer Dome, Battle Mountain, ASARCO, and Orvana Minerals demonstrated the presence of a wide and continuous mineralized zone by drilling 46 core holes (36,835 feet) and 132 reverse-circulation holes (61,338 feet) within the district. The vast majority of this drilling was conducted in the Nevin Hill area which is included in the Timberline property. Best gold intercepts achieved at Butte Highlands include 49.8 feet of 0.651 ounces per ton (oz/t) and 11.5 feet of 1.996 oz/t from surface drilling. From underground drilling, best gold intercepts include 33.6 feet of 1.65 oz/ton, 31.0 feet of 1.060 oz/t and 14.3 feet of 2.37 oz/ton.

#### **Historic Drilling Highlights (from Surface)**

| <b>Drill Hole</b> | <b>From<br/>(ft)</b> | <b>To<br/>(ft)</b> | <b>Length<br/>(ft)</b> | <b>Gold<br/>(oz/t)<sup>(1)</sup></b> |
|-------------------|----------------------|--------------------|------------------------|--------------------------------------|
| DDH 88-3          | 745.0                | 756.0              | 11.0                   | 0.110                                |
|                   | 1,070.0              | 1,085.0            | 15.0                   | 0.206                                |
| DDH 89-1          | 1,177.2              | 1,227.0            | 49.8                   | 0.651                                |
| PD 89-1           | 1,351.0              | 1,366.0            | 15.0                   | 0.340                                |
| PD 89-2           | 1,396.0              | 1,412.0            | 16.0                   | 0.135                                |
| BH 93-1           | 885.0                | 895.0              | 10.0                   | 0.138                                |
|                   | 925.0                | 935.0              | 10.0                   | 0.319                                |
| BH 93-8           | 1,189.0              | 1,200.0            | 11.0                   | 0.131                                |
| BH 93-11          | 758.5                | 770.0              | 11.5                   | 0.351                                |
|                   | 825.0                | 845.0              | 20.0                   | 0.114                                |
|                   | 964.0                | 978.0              | 14.0                   | 0.776                                |
| BH 93-12          | 762.5                | 786.0              | 23.5                   | 0.548                                |
| BH 94-2           | 1,240.0              | 1,270.0            | 30.0                   | 0.214                                |
| BH 94-3           | 1,129.3              | 1,141.0            | 11.7                   | 0.255                                |
|                   | 1,163.4              | 1,181.0            | 17.6                   | 0.142                                |
|                   | 1,312.0              | 1,325.5            | 13.5                   | 0.492                                |
|                   | 1,425.0              | 1,437.0            | 12.0                   | 0.276                                |
| BH 94-16          | 1,335.5              | 1,347.0            | 11.5                   | 0.165                                |
| BH 94-17          | 1,295.5              | 1,323.0            | 27.5                   | 0.268                                |
| BH 95-5           | 1,429.0              | 1,457.5            | 28.5                   | 0.338                                |
|                   | 1,512.5              | 1,522.5            | 10.0                   | 0.129                                |
| BH 96-1           | 697.0                | 722.3              | 25.3                   | 0.153                                |
|                   | 754.0                | 779.5              | 25.5                   | 0.158                                |
| BH 96-5           | 837.0                | 849.0              | 12.0                   | 0.678                                |
|                   | 902.0                | 916.0              | 14.0                   | 0.114                                |
|                   | 932.5                | 944.0              | 11.5                   | 1.996                                |
| BH 96-6           | 1,258.0              | 1,270.0            | 12.0                   | 0.142                                |
|                   | 1,320.0              | 1,333.0            | 13.0                   | 0.165                                |
| BH 96-8           | 1,222.0              | 1,233.0            | 11.0                   | 0.234                                |
|                   | 1,287.0              | 1,307.0            | 20.0                   | 0.212                                |
| BH 96-9           | 993.0                | 1,012.0            | 19.0                   | 0.133                                |

(1) All values represent either a single interval or were composited using a weighted average based on sample interval length.

In 1997, Orvana Minerals used recent and historic drilling data to prepare a report on the Butte Highlands property. The report provided a preliminary technical review of feasibility issues, identifying no fatal flaws to mine development. The report also noted that suitable sites for a mill and tailings pond are present on the property, custom milling at existing nearby facilities was feasible, and access to the deposit could be achieved with a decline from either of two existing portals.

## **Drilling by Timberline Resources**

Four core holes were drilled in 2008 totaling 6,757 feet of drill core. The results were positive, resulting in confirmation and extension of the stratigraphic controlled mineralization to the northwest; and the discovery of an additional zone at depth near the northwest end of the known mineralized extents. The drilling also indicated a potential zone of broader lower grade material within the intrusive which may be amenable to bulk underground mining methods.

In 2009 BHJV completed a five hole core drill program totaling 7,244 feet of drilling. The first three drill holes were drilled to the northwest of the main mineralized body in the hopes of extending mineralization in that area. The first drill hole (BHDDH09-01) encountered mineralization but it appears to be on the outer margins. Two narrow intercepts above 0.1 ounces per ton gold (Au) were encountered. The first was 0.8 feet from 1269.8 feet to 1270.6 feet grading 0.115 ounces per ton Au. The second was 2.5 feet from 1401.1 to 1403.6 feet grading 0.356 ounces per ton Au. The second drill hole (BHDDH09-02) encountered mineralized formation before abruptly intersecting an unexpected fault which removed most of the favorable Wolsey Formation. The third drill hole (BHDDH09-03) encountered the same faulting as in BHDDH09-02 but the entire favorable horizon was removed, consequently no mineralization was encountered in either of the drill holes. The fourth hole (BHDDH09-04) was drilled in the central part of the mineralized area with the intention of infill drilling near known mineralized intercepts. The hole encountered a significant amount of skarn mineralization. Although geologically it appears similar to high grade material, it is lower grade than nearby mineralization. The fifth drill hole (BHDDH09-05) was drilled central to the mineralized area but significantly up dip of the known mineralization. The purpose of this hole was twofold; to supply geotechnical data for the proposed vent raise, and for exploration. Skarn mineralization was encountered although it was lower grade than the down dip zone. One significant intercept of 3.5 feet from 1200.2 feet to 1207.7 feet grading 0.171 opt Au was encountered in the drill hole. When averaged with the next sample, the intercept is 7.8 feet from 1200.2 feet to 1208 feet grading 0.11 ounces per ton Au.

BHJV also initiated a Hydrologic Reverse Circulation Drill program during 2009. The program consisted of five holes completed for a total of 6,695 feet. Data collected during this program was used to model the hydrologic character of the mineralized area.

A seven hole core drilling program was completed during the year ending September, 30 2010. The program had two purposes; one was to infill and expand mineralization within the known area of mineralized material, and the second was to test potential for mineralization to the east, outside the area of known mineralization. Three holes were drilled within the known extents of the mineralized area while four holes were drilled outside to the east of the known extents. Two of the holes drilled interior to the known mineralized extents had significant intercepts in them. Hole BHDDH10-02 had a 9.7 foot intercept grading 0.383 ounces per ton gold. This intercept is generally carried by a 1.72 foot intercept grading 0.768 ounces per ton. This drill hole had a couple additional shorter intercepts that with further exploration drilling may lead into additional ore zones. The first one is a 3.3 foot gold intercept grading 0.113 ounces per ton and the second is a 2 foot gold intercept grading 0.269 ounces per ton.

Hole BHDDH10-07 had sixteen intercepts greater than 0.029 ounces per ton gold. The overall intercept was 43.2 feet from 959.8 feet to 1003 feet at an average grade of .819 ounces per ton gold including one intercept from 971.9 feet to 974.1 feet of 2.2 feet grading 15.242 ounces per ton gold. There are other intercepts in the drill hole but all are less than 0.1 ounces per ton gold.

There were no mineable width significant intercepts in the outside exploration holes. Several short intercepts and intercepts of anomalous material were encountered but nothing of economic interest. Hole number BHDDH10-03 contained an intercept from 938.5 to 939.9 consisting of 1.4 feet grading 0.185 ounces per ton gold. Hole number BHDDH10-04 also contained a short intercept from 708.9 to 709.6 consisting of 0.7 feet grading 0.179 ounces per ton gold. Both of these intercepts were short zones on the contact between intrusive material and the Meagher formation. Although we did not encounter significant ore zone intercepts, strides in understanding the geology and genesis of the Butte Highlands gold mineralization were achieved.

During the year ended September 30, 2011, BHJV undertook a 52,000 foot underground definition drilling program. This program was designed to collect definition drill data to facilitate a mine model for production planning purposes during the early years of the mine's production life, and encountered several significant intercepts within the known mineralized extents, including 33.6 feet grading 1.65 ounces per ton gold, 51.8 feet grading 0.43 ounces per ton gold, 26.9 feet grading 0.32 ounces per ton gold and 14.3 feet grading 2.37 ounces per ton gold.

All above mentioned intercept values were calculated using a sample length, weighted average calculation or represent a single sample interval. The following table represents intercepts of interest during Timberline Resources tenure on the project. The true widths of the intervals' lengths are estimated to be approximately 75-percent of the reported interval length.

Our President, Chief Executive Officer and Executive Chairman, Paul Dirksen, is a qualified person as defined by NI 43-101, and has reviewed and approved the technical contents of drilling results contained in the table below, including sampling, analytical and test data. Field work was conducted under his supervision. Our sampling and analysis program included an industry standard QA/QC program. After photographing, core logging and cutting the sample intervals in half, the samples were shipped to ALS Chemex Laboratories in Elko, Nevada for preparation. The prepared pulps were then forwarded by ALS Chemex to their lab in Sparks, Nevada or their lab in Vancouver, BC Canada for analysis. The samples were analyzed for gold using a standard 30g fire assay with an AA finish. Samples returning a gold value in excess of 10 ppm were re-analyzed using a 30g fire assay with a gravimetric finish.

### Highlights from Timberline Resources Drilling

| <b>Drill Hole</b> | <b>From (ft)</b> | <b>To (ft)</b> | <b>Intercept length (ft)</b> | <b>Gold (oz/t)<sup>(1)</sup></b> |
|-------------------|------------------|----------------|------------------------------|----------------------------------|
| BHDDH08-01        | 1335.6           | 1337           | 1.4                          | 0.27                             |
| BHDDH08-02        | 1171.4           | 1178.6         | 7.2                          | 0.11                             |
| BHDDH08-02        | 1193.7           | 1196.3         | 2.6                          | 0.11                             |
| BHDDH08-02        | 1326             | 1351           | 25                           | 0.10                             |
| BHDDH08-02        | 1577.7           | 1578.5         | 0.8                          | 0.14                             |
| BHDDH08-03        | 1207             | 1209           | 2.0                          | 0.62                             |
| BHDDH08-03        | 1242             | 1279           | 37                           | 0.21                             |
| <i>including</i>  | <i>1250</i>      | <i>1260</i>    | <i>10</i>                    | <i>0.30</i>                      |
| <i>including</i>  | <i>1272.7</i>    | <i>1279</i>    | <i>6.3</i>                   | <i>0.41</i>                      |
| BHDDH08-03        | 1294             | 1299           | 5.0                          | 0.26                             |
| BHDDH08-03        | 1560.2           | 1569.2         | 9.0                          | 0.41                             |
| BHDDH08-03        | 1580             | 1615           | 35                           | 0.14                             |
| BHDDH09-01        | 1269.8           | 1270.6         | 0.8                          | 0.11                             |
| BHDDH09-01        | 1401.1           | 1403.6         | 2.5                          | 0.36                             |
| BHDDH09-04        | 1023.3           | 1027.3         | 4.0                          | 0.10                             |
| BHDDH09-05        | 1182             | 1185.4         | 3.4                          | 0.09                             |
| BHDDH09-05        | 1200.2           | 1208           | 7.8                          | 0.11                             |
| BHDDH10-02        | 262.3            | 272            | 9.7                          | 0.38                             |
| BHDDH10-02        | 300.1            | 303.4          | 3.3                          | 0.11                             |
| BHDDH10-02        | 319.4            | 321.4          | 2.0                          | 0.27                             |
| BHDDH10-03        | 938.5            | 939.9          | 1.4                          | 0.19                             |
| BHDDH10-04        | 708.9            | 709.6          | 0.7                          | 0.20                             |
| BHDDH10-07        | 959.8            | 1003           | 43.2                         | 0.82                             |
| <i>including</i>  | <i>959.8</i>     | <i>974.1</i>   | <i>14.3</i>                  | <i>2.37</i>                      |
| <i>including</i>  | <i>971.9</i>     | <i>974.1</i>   | <i>2.2</i>                   | <i>15.24</i>                     |
| BHUG11-006        | 293.6            | 327.2          | 33.6                         | 1.65                             |
| <i>including</i>  | <i>303.6</i>     | <i>308.6</i>   | <i>5.0</i>                   | <i>10.45</i>                     |
| BHUG11-042        | 253.2            | 280.1          | 26.9                         | 0.32                             |
| BHUG11-058        | 546.5            | 598.3          | 51.8                         | 0.43                             |
| <i>including</i>  | <i>559.5</i>     | <i>564.4</i>   | <i>5.0</i>                   | <i>1.03</i>                      |

(1) All values represent either a single interval or were composited using a weighted average based on sample interval length.

As of September 30, 2012, we have incurred exploration costs to date of approximately \$1,600,000. During the 2013 fiscal year, we do not plan to undertake any significant exploration work on the property. The focus at Butte Highlands in fiscal 2013 will be the completion of the permitting process, completion of geologic model and mine planning, and the commencement of mining operations by our joint venture partner, Highland, upon the receipt of the Hard Rock Operating Permit from the State of Montana.

## **Idaho Gold Property**

### ***The Spencer Prospect***

The Spencer prospect covers 640 acres on the western end of the Kilgore-Spencer Trend, a northeast-trending belt of rhyolite volcanics known to host epithermal gold-silver mineralization, just south of a privately-held opal mine about nine miles northeast of near the town of Spencer, Idaho. We believe that the property has the potential to host both open-pit and underground gold deposits.

The geochemistry at Spencer is consistent with the upper levels of an epithermal system. Although there was considerable interest in the region during the 1980s and 1990s, the Spencer property has never been drill tested.

We have performed a phase-one exploration program consisting of reconnaissance-scale geological mapping along with rock chip and soil geochemical sampling. Future work may include more detailed mapping and sampling, and possibly a geophysical survey to help define drill targets.

The Spencer Prospect is held by State of Idaho Department of Lands Mineral Lease No. 9347. The Mineral Lease was issued to a prior Director of Timberline, who assigned it to us for consideration of common stock and approximately \$3,000 in expenses.

The prospect is located in Section 16, Township 12 North, Range 37 East, in Clark County, Idaho. The lease covers an area of approximately 640 acres and calls for annual payments to the State of Idaho of \$640. Royalties on production of previous metals are 5-percent of the gross receipts from the sale of minerals produced, less reasonable transportation, smelting and treatment costs.

As of September 30, 2012, we do not consider the Spencer prospect to be a material property. No material future expenditures are planned on the prospect at this time.

## **Idaho Copper-Silver Property**

### ***The Snowstorm Prospect***

The Snowstorm Project is located in north Idaho's "Silver Valley" and features the Snowstorm Mine, a historic operation that produced 800,000 tons of ore averaging 4-percent copper and 6 ounces per ton (oz/t) silver. Snowstorm mineralization occurred as disseminated copper and silver found in the same Revett Formation quartzites that host the Troy, Rock Creek, and Montanore deposits on the Montana Copper Sulfide Belt, but was of a much higher grade. The Snowstorm property, which is 2 miles northeast of the Lucky Friday Mine near Mullan in Shoshone County, Idaho, lies in the southwest corner of the Montana Copper Sulfide Belt where it overlaps the northeast corner of the Coeur d'Alene Mining District. Timberline controls 100-percent of the Snowstorm Project.

In late-2005, Timberline completed a Phase I exploration program at Snowstorm, designed as an initial evaluation of the potential for copper-silver mineralization in Upper Revett quartzite within the large project area. The program consisted of 10 core holes totaling 4,104 feet, drilled at nine widely-spaced sites along the projected mineralized horizon at depths ranging from 149 to 712 feet.

We submitted a technical report on the Phase I exploration program at Snowstorm, along with a Phase II exploration proposal, to Hecla as required by an earn-in agreement. Hecla has subsequently elected not to participate in future expenditures at Snowstorm and thus retains a 4-percent net smelter returns (NSR) royalty on any future production from the project. We now control 100-percent of the Snowstorm prospect.

In 2005 we signed a Mineral Lease Agreement with Snowshoe Mining Co. for additional ground adjacent to the Snowstorm project area. The property subject to the Snowshoe Agreement includes the patented claims of Mineral Survey 2224, encompassing an area of approximately 76 acres, just west of the Snowstorm claims. The agreement calls for an initial payment of \$8,000, with annual payments increasing to \$15,000 by May 2009, and remaining at that level thereafter. We will pay a 3-percent NSR royalty on any production from the Snowshoe property, and will perform a minimum of \$10,000 worth of exploration work upon it annually. The work may be performed on or for the benefit of the Snowshoe claims. Hecla previously elected to include the Snowshoe claims within the area of interest, and will consequently receive a 1-percent NSR royalty on any production from the Snowshoe property.

In June 2012 we entered into an Exploration and Option to Purchase Agreements with Daycon Minerals Corporation ("Daycon"), a private Canadian corporation, for our Snowstorm Prospect. Under the terms of the agreement, Daycon has a five year option to purchase the property for \$1.5 million cash. We received a total of 200,000 shares of Daycon common stock upon execution of the agreement, with potential stock to be issued under the agreement of up to 1,500,000 shares of Daycon common stock. Daycon has agreed to make annual minimum exploration expenditure commitments of \$250,000 on the Snowstorm Prospect, commencing in June 2014. We do not consider these agreements to be material to our business at this time.

As of September 30, 2012, we do not consider the Snowstorm prospect to be a material property. No material future expenditures are planned on the prospect at this time.

## **Montana Copper-Silver Properties**

### ***The Minton Pass, East Bull, Standard Creek, Lucky Luke, Clear Peak and Copper Rock Prospects***

In 2004, we acquired four properties on the Montana Copper Sulfide Belt in Lincoln and Sanders counties. All four properties are interpreted as sediment-hosted copper-silver occurrences located in the Revett Formation of the Montana Copper-Silver Belt and are considered early-stage exploration prospects. The properties were held by U.S. Borax and its successor company, Kennecott Exploration, during the 1980s and early-1990s. We acquired the mapping and sampling data from the U.S. Borax program. There has been no documented activity in these areas since 1992.

In the 1970s and 1980s, major exploration companies identified several copper-silver occurrences within the Montana Copper Sulfide Belt, and successfully outlined three world-class ore bodies, including Troy, Rock Creek and Montanore. These quartzite-hosted deposits are characterized by their lateral extensive size and continuity of mineralization.

In 2008, we acquired two additional prospects in the same favorable mineralized geology, Clear Peak and Copper Rock. These properties have the same geologic description as the properties described above. Both Clear Peak and Copper Rock were previously explored by Asarco Exploration Company, Inc. All claims were staked by us and are not subject to any underlying production royalty. All of these claims have been filed with the BLM.

In June 2012 we entered into an Exploration and Option to Purchase Agreements with Daycon Minerals Corporation ("Daycon"), a private Canadian corporation, for our Montana Copper-Silver Properties. Under the terms of the agreement, Daycon has a five year option to purchase the properties for \$1.5 million cash. We received a total of 300,000 shares of Daycon common stock upon execution of the agreement, with potential stock to be issued under the agreement of up to 900,000 shares of Daycon common stock. Daycon has agreed to make annual minimum exploration expenditure commitments of \$200,000 on the properties, commencing in June 2014. We do not consider these agreements to be material to our business at this time.

As of September 30, 2012, we do not consider any of the Minton Pass, East Bull, Standard Creek, Lucky Luke, Clear Peak or Copper Rock prospects to be material properties. No material future expenditures are planned on the properties at this time.

### **Overview of Regulatory, Economic and Environmental Issues**

Hard rock mining and drilling in the United States is a closely regulated industrial activity. Mining and drilling operations are subject to review and approval by a wide variety of agencies at the federal, state and local level. Each level of government requires applications for permits to conduct operations. The approval process always involves consideration of many issues including but not limited to air pollution, water use and discharge, noise issues, and wildlife impacts. Mining operations always involve preparation of an environmental impact statement that examines the probable effect of the proposed site development. Federal agencies that may be involved include: The U.S. Forest Service (USFS), Bureau of Land Management (BLM), Environmental Protection Agency (EPA), National Institute for Occupational Safety and Health (NIOSH), the Mine Safety and Health Administration (MSHA) and the Fish and Wildlife Service (FWS). Individual states also have various environmental regulatory bodies, such as Departments of Ecology. Local authorities, usually counties, also have control over mining activity. An example of such regulation is the State of Montana's recent ban on the use of cyanide in certain open-pit mining activities within the state. Cyanide is often used in the extraction of gold. However, since some of our prospects in Montana are for silver and copper this ban does not affect those properties. Our Butte Highlands project in Montana is partially on patented ground and is an underground gold prospect. It is anticipated that any production from this property would be shipped to nearby mills for processing as opposed to building our own mills and processing facilities, thus this ban would not affect our plans in Montana. The Elkhorn project is nearby and similar to Butte Highlands and is following a similar plan with public support. We are not aware of any other states that plan to enact similar legislation.

Gold, silver and copper are mined in a wide variety of ways, both in open pit and underground mines. Open pit mines require the gold deposit to be relatively close to the surface. These deposits tend to be low grade (such as 0.01-0.03 ounces per ton gold) and are mined using large, costly earth moving equipment, usually at very high tonnages per day.

Open pit operations for gold often involve heap leaching as a metallurgical method to remove the gold. Heap leaching involves stacking the ore on pads which are lined with an impenetrable surface, then sprinkling the gold with a weak cyanide solution to extract the gold. The particle impregnated solution is collected and the gold recovered through further processing.

Underground metal mines generally involve higher grade ore bodies. Less tonnage is mined underground, and generally the higher grade ore is processed in a mill or other refining facility. This process results in the accumulation of waste by-products from the washing of the ground ore. Mills require associated tailings ponds to capture waste by-products and treat water used in the milling process.

Capital costs for mine, mill and tailings pond construction can easily run into the hundreds of millions of dollars. These costs are factored into the profitability of a mining operation. Metal mining is sensitive to both cost considerations and to the value of the metal produced.

Metals prices are set on a world-wide market and are not controlled by the operators of the mine. Changes in currency values or exchange rates can also impact metals prices. Changes in metals prices or operating costs can have a huge impact on the economic viability of a mining operation.

Environmental protection and remediation is an increasingly important part of mineral economics. In some cases, particularly in Montana, with its concern for its grizzly bear population, mining companies have been required to acquire and donate additional land to serve as a substitute habitat for this endangered species.

Estimated future costs of reclamation or restoration of mined land are based principally on legal and regulatory requirements. Reclamation of affected areas after mining operations may cost millions of dollars. Often governmental permitting agencies are requiring multi-million dollar bonds from mining companies prior to granting permits, to insure that reclamation takes place. All environmental mitigation tends to decrease profitability of the mining operation, but these expenses are recognized as a cost of doing business by modern mining and exploration companies.

Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. We conduct our operations so as to protect the public health and environment and believe our operations are in compliance with applicable laws and regulations in all material respects. We have made, and expect to make in the future, expenditures to comply with such laws and regulations, but cannot predict the full amount of such future expenditures.

Every mining activity has an environmental impact. In order for a proposed mining project to be granted the required governmental permits, mining companies are required to present proposed plans for mitigating this impact. In the United States, where our properties are located, no mine can operate without obtaining a number of permits. These permits address the social, economic, and environmental impacts of the operation and include numerous opportunities for public involvement and comment.

We intend to focus on exploration and discovery of mineral resources. If we are successful, the ore bodies discovered will be attractive to production companies, or we will potentially bring the ore bodies to production ourselves. The mining industry is, like agriculture, a fundamental component of modern industrial society, and minerals of all sorts are needed to maintain our way of life. If we are successful in finding an attractive ore body, be it gold, silver or copper, sufficient value will be created to reward our shareholders and allow for all production and reclamation expenses to be paid ourselves or by the actual producer to whom we convey, assign or joint venture the project.

### **ITEM 3. LEGAL PROCEEDINGS**

We are not a party to any material pending legal proceedings, and no such proceedings are known to be contemplated.

No director, officer or affiliate of Timberline and no owner of record or beneficial owner of more than 5.0% of our securities or any associate of any such director, officer or security holder is a party adverse to Timberline or has a material interest adverse to Timberline in reference to pending litigation.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Pursuant to Section 1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (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 fiscal year ended September 30, 2012, our U.S. exploration properties were not subject to regulation by the Federal Mine Safety and Health Administration ("MSHA") under the *Federal Mine Safety and Health Act of 1977* (the "Mine Act").

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock is listed on the NYSE MKT and is quoted under the trading symbol “TLR”. Our common stock also trades on the TSX Venture Exchange (“TSX-V”) in Canada and is quoted under the trading symbol “TBR”. The high and low sale prices for our common stock as quoted on the NYSE MKT and the TSX-V were as follows:

| Period <sup>(1)</sup>         | NYSE MKT (US\$) |        | TSX-V (Cdn\$) |        |
|-------------------------------|-----------------|--------|---------------|--------|
|                               | High            | Low    | High          | Low    |
| 2012                          |                 |        |               |        |
| First Quarter                 | \$0.63          | \$0.45 | \$0.70        | \$0.46 |
| Second Quarter                | \$0.52          | \$0.26 | \$0.55        | \$0.24 |
| Third Quarter                 | \$0.42          | \$0.23 | \$0.45        | \$0.23 |
| Fourth Quarter <sup>(2)</sup> | \$0.50          | \$0.27 | \$0.46        | \$0.25 |
| 2011                          |                 |        |               |        |
| First Quarter                 | \$1.32          | \$0.87 | \$1.30        | \$0.83 |
| Second Quarter                | \$1.09          | \$0.74 | \$1.15        | \$0.71 |
| Third Quarter                 | \$0.99          | \$0.55 | \$0.94        | \$0.59 |
| Fourth Quarter                | \$0.74          | \$0.50 | \$0.70        | \$0.52 |
| 2010                          |                 |        |               |        |
| Fourth Quarter                | \$1.40          | \$0.78 | \$1.44        | \$0.85 |

(1) Quarters indicate calendar year quarters.

(2) Through December 7, 2012

On December 7, 2012, the closing sale price for our common stock was \$0.29 on the NYSE MKT and \$0.28 Cdn. on the TSX-V.

As of December 7, 2012, we had 62,271,879 shares of common stock issued and outstanding, held by approximately 750 registered shareholders. In many cases, shares are registered through intermediaries, making the precise number of shareholders difficult to obtain.

#### Dividend Policy

We anticipate that we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future. Any further determination to pay cash dividends will be at the discretion of our board of directors and will be dependent on the financial condition, operating results, capital requirements and other factors that our board deems relevant. We have never declared a dividend.

#### Purchases of Equity Securities by the Issuer and Affiliates

There were no purchases of our equity securities by us or any of our affiliates during the year ended September 30, 2012.

#### Stock Incentive Plans

In February 2005, our Board adopted the 2005 Stock Incentive Plan which was approved by a vote of shareholders at our Annual Meeting of Shareholders on September 23, 2005. This plan authorizes the granting of up to 750,000 non-qualified stock options to our officers, directors, and consultants.

On August 31, 2006, our Board of Directors approved an amendment to the Timberline Resources Corporation 2005 Equity Incentive Plan (the “Amended 2005 Plan”) for the purposes of increasing the total number of shares of common stock that may be issued pursuant to Awards granted under the original 2005 plan from 750,000 shares to 2,750,000 shares and allowing “Ten Percent Shareholders” (as defined in the Amended 2005 Plan) to participate in the plan on the same basis of any other participant. The Amended 2005 Plan was approved by a vote of shareholders at our Annual Meeting of Shareholders on September 22, 2006.

On August 22, 2008, our shareholders approved a proposal for the increase in the total number of shares of common stock that may be issued pursuant to awards granted under the original 2005 plan as previously amended. Following the increase, the plan provides for 7,000,000 shares of common stock for awards under the plan.

On May 28, 2010, our shareholders approved a proposal for the increase in the total number of shares of common stock that may be issued pursuant to awards granted under the original 2005 plan as previously amended. Following the increase, the plan provides for 10,000,000 shares of common stock for awards under the plan.

### Equity Compensation Plans

The following summary information is presented as of September 30, 2012.

|                                                                       | Number of securities to be issued upon exercise of outstanding options, warrants, and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants, and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders <sup>(1)</sup> | 6,491,500 <sup>(1)</sup>                                                                            | \$0.93                                                                              | 738,865                                                                                                                                            |
| Equity compensation plans not approved by security holders            | Not applicable                                                                                      | Not applicable                                                                      | Not applicable                                                                                                                                     |
| <b>TOTAL</b>                                                          | 6,491,500 <sup>(1)</sup>                                                                            | \$0.93                                                                              | 738,865                                                                                                                                            |

(1) See “Stock Incentive Plans”, above.

As to the options granted to date, there were 398,333 options exercised during the year ended September 30, 2012. For the year ended September 30, 2011, 308,332 options were exercised.

### Sale of Unregistered Securities

None.

## ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under “Risk Factors and Uncertainties” and elsewhere in this document. See “Cautionary Note Regarding Forward-Looking Statements” above.*

### Overview

We commenced our exploration stage in January 2004 with the change in the management of the Company. From January 2004 until March 2006, we were strictly a mineral exploration company. With the subsequent acquisition of a drilling services company, the acquisition of Butte Highlands, and the acquisition of Staccato Gold Resources Ltd., we advanced our business plan. Prior to our new business model, the purchase of Timberline Drilling (formerly known as Kettle Drilling), and a more active and focused exploration division, the Company had no reported revenues and accumulated losses.

During 2012 we have continued to focus our business model on mineral exploration and development, with future revenues and cash flows, if any, to be derived from any future mineral production. During the previous year, we actively sought a buyer for our drilling services subsidiary, Timberline Drilling, as we had determined that Timberline Drilling was a non-core business and that the market was optimal for achieving a sale of that subsidiary. The sale of Timberline Drilling was completed in November 2011 for a total realized value of approximately \$15 million.

At our South Eureka Property in Nevada’s Battle Mountain – Eureka gold trend, which includes the Lookout Mountain Project, we followed up on the exploration and drilling programs of the previous two years with another drilling program that included an additional 26,000 feet



designed to enhance our confidence in our estimated mineralized material and to obtain drill core for process metallurgical and geotechnical scoping studies. We also initiated, or continued, geotechnical, geochemical studies as part of our preparations for permitting the Lookout Mountain Project. We announced an updated gold mineralization estimate in May 2012, and we expect to complete a preliminary economic assessment of the Project during 2013.

Our Butte Highlands Joint Venture in Montana continued to progress towards commencement of production during the 2012 fiscal year. Our activities during 2012 were concentrated primarily on advancing permitting of the project. Subsequent to our fiscal year end, but prior to filing this report, we received a notice of completeness and compliance from the MTDEQ, as well as a draft operating permit for the project. We expect to obtain all necessary permits to commence production in 2013.

## Mineral Exploration

In June, 2010, we acquired Staccato Gold Resources Ltd. and its South Eureka Property in the Nevada's Battle Mountain – Eureka gold trend, which includes the Lookout Mountain Project, and is one of the largest undeveloped exploration properties in Nevada, encompassing some 23 square miles. Since our acquisition of the South Eureka Property we have completed an aggressive work program, including more than 60,000 feet of surface drilling, metallurgical testing, geotechnical and geochemical studies, as well as baseline environmental studies. We have obtained sufficient data to complete an updated mineralization estimate, and updated NI 43-101 technical reports were released by us in both March 2011 and May 2012. In addition, we completed detailed mapping of the geology of the property to better understand the controls of mineralization and to outline additional exploration drill targets that were tested during the 2012 drilling program as well as in future exploration drilling programs.

As of September 30, 2012 we have completed a 26,000 foot reverse circulation and diamond drilling program at South Eureka, with as many as three drill rigs operating on site. The 2012 program was designed to demonstrate strong continuity of mineralization on the property, as well as initial identification of high grade gold mineralization down-dip of the current mineralization. We expect to proceed with a preliminary economic assessment of the Lookout Mountain Project in 2013, as well as continuing with ongoing metallurgical, geotechnical and environmental studies as part of this assessment. Assuming the availability of funding to undertake our exploration program, we expect that total expenditures on South Eureka during fiscal 2013 will be approximately \$6.5 million. These expenditures are discretionary and may be scaled back depending upon the availability of capital to us.

Activities at our Butte Highlands Joint Venture during fiscal 2012 focused almost exclusively on completing the permitting process, with an expectation that all necessary permits to commence production will be received in 2013. We are a 50% joint venture partner in the Butte Highlands Joint Venture and is being carried to production.

The required application has been submitted for an Operating Permit at Butte Highlands, and work is continuing on the other associated permits required for the operation, including a Montana Pollutant Discharge Elimination System permit and a Special Use Permit from the United States Forest Service for ore haulage road use. No material permitting obstacles are expected as the project advances toward targeted production. Surface facilities and infrastructure required for development and production are already in place under our exploration permit which has been in place since August 2009.

Timberline's Butte Highlands Joint Venture is the first example of our strategy to enter into creative structures that move production responsibility to other parties while allowing exposure to gold production, where financing has been provided by a third party with proven expertise in underground mine development and operation. This has been achieved with no dilution to Timberline shareholders. As noted, all expenditures relating to the development of the projected underground mine are being paid by Timberline's joint venture partner, with a total expected development budget of approximately USD \$40 million.

Our management and geologists remain committed to providing exploration and potential for discovery to our investors. Looking ahead, it is the opinion of management that our primary commodity focus should be on gold, and to a lesser extent on silver in the precious metals area. Furthermore, we believe that projects similar to Lookout Mountain and Butte Highlands are a good fit for the current environment and the unique qualifications of our people and strategic partners.

## Results of Operations for Years Ended September 30, 2012 and 2011

### Consolidated Results

| (\$US)                                           | Year Ended September 30, |                |
|--------------------------------------------------|--------------------------|----------------|
|                                                  | 2012                     | 2011           |
| Consolidated net loss from continuing operations | \$ (7,171,572)           | \$ (6,835,866) |
| Income from discontinued operations, net of tax  | 2,121,580                | 4,506,356      |
| Consolidated net loss                            | \$ (5,049,992)           | \$ (2,329,510) |

Our overall consolidated net loss for the year increased in comparison to the prior year primarily as a result of the sale of our discontinued operations (Timberline Drilling) early in fiscal 2012, as well as an increase in mineral exploration expenses by the Company. These exploration expenses were largely incurred at our South Eureka Property.

(\$US)

|                                             | Year Ended September 30, |                |
|---------------------------------------------|--------------------------|----------------|
|                                             | 2012                     | 2011           |
| Exploration expenses:                       |                          |                |
| Butte Highlands                             | \$ 13,953                | \$ 36,374      |
| South Eureka/Lookout Mountain               | 4,204,887                | 3,699,069      |
| Other exploration properties                | 728,812                  | 632,418        |
| Total exploration expenditures              | 4,947,652                | 4,367,861      |
| Non-cash expenses:                          |                          |                |
| Stock option and stock issuance expense     | 370,000                  | 901,246        |
| Depreciation, amortization and accretion    | 56,726                   | 29,248         |
| Total non-cash expenses                     | 426,726                  | 930,494        |
| Gain on lease of mineral rights             | (75,000)                 | -              |
| Salaries and benefits                       | 808,426                  | 560,148        |
| Professional fees expense                   | 271,946                  | 306,289        |
| Impairment of available-for-sale securities | 50,000                   | -              |
| Other general and administrative expenses   | 798,542                  | 1,009,243      |
| Interest expense                            | 71,274                   | 527,272        |
| Interest and other income                   | (127,994)                | (13,319)       |
| Income tax benefit                          | -                        | (852,122)      |
| Net loss from continuing operations         | \$ (7,171,572)           | \$ (6,835,866) |

The increase in the after tax net loss for the year ended September 30, 2012 as compared to the previous year's after tax net loss is primarily a result of increased expenditures on mineral exploration at our South Eureka/Lookout Mountain property and higher salaries and benefits expenses. During the year we added a new Vice President, Exploration, as well as incurred one-time expenses for the cancellation and transfer of existing supplemental retirement plans to our Chief Executive Officer and Chief Financial Officer. These increased expenses were partially offset by reduced non-cash expenses, lower interest expense, increased interest income and a gain on the lease of mineral rights. During the year we repaid our outstanding \$5 million debt obligation and commenced the receipt of interest income on a note receivable from the purchaser of Timberline Drilling. The gain on lease of mineral rights was realized on the lease of our Montana Copper-Silver Properties as more fully described in Item 2 of this Annual Report. The income tax benefit during the year ended September 30, 2011 arose as a result of a reduction in deferred income tax liabilities assumed upon the acquisition of Staccato Gold Resources Ltd.

Exploration expenses increased significantly from the previous year as a result of increased exploration drilling undertaken in 2012 at our South Eureka/Lookout Mountain property. Non-cash expenses decreased significantly in 2012 compared to the prior year as a result of a reduced value of stock options vesting during the current year. Other general and administrative expenses decreased in 2012 primarily due to reduced investor relations activities and use of outside consulting services, as well as a revamping of our marketing information, corporate logo, and website, and the initiation of payment of cash compensation to members of our Board of Directors in the previous year.

#### *Discontinued Operations – Timberline Drilling & WVE*

In September 2011, we announced that we had entered into a non-binding letter of intent to sell our wholly owned Timberline Drilling subsidiary. The results of operations for Timberline Drilling have been reported in discontinued operations for all periods presented.

Prior to its disposal, Timberline Drilling continued to experience similar daily production rates from operating drills, revenues per foot drilled, and operating margins as it did in the previous fiscal year. In November 2011, the sale of Timberline Drilling was completed for a total value of approximately \$15 million, including the receipt of \$8 million in cash and an additional \$2 million in cash from Timberline Drilling's working capital immediately prior to closing. The sale of Timberline Drilling resulted in a gain on disposal of \$1,636,938 to the Company.

During the year ended September 30, 2011 Timberline Drilling had record net income, primarily attributable to the addition of new customers during the year and an increase in the number of drill rigs working for Timberline Drilling's largest customer. Average daily production rates from operating drills and higher revenues per foot drilled contributed to the increase in net income from the previous year, offset in part by preparation costs associated with the deployment of surface drilling rigs to new customer locations and higher maintenance costs. During 2011, Timberline Drilling provided \$1 million in cash to us in order to fund our exploration expenses.

The following table details selected financial information included in the income from discontinued operations in our consolidated statement of operations for the years ended September 30, 2012 and 2011.

| (\$US)                                          | Year Ended September 30, |               |
|-------------------------------------------------|--------------------------|---------------|
|                                                 | 2012                     | 2011          |
| Revenues                                        | \$ 3,173,633             | \$ 30,908,082 |
| Cost of revenues                                | (2,300,585)              | (23,629,156)  |
| Operating expenses                              | (372,437)                | (2,672,150)   |
| Interest and other income                       | 188                      | 3,630         |
| Interest expense                                | (16,157)                 | (104,050)     |
| Net income                                      | \$ 484,642               | \$ 4,506,356  |
| Gain on disposal                                | 1,636,938                | -             |
| Income from discontinued operations, net of tax | \$ 2,121,580             | \$ 4,506,356  |

Our consolidated balance sheet has no assets and liabilities of discontinued operations held for sale at September 30, 2012. Our consolidated balance sheet has assets and liabilities of discontinued operations held for sale which were comprised of the following items at September 30, 2011:

|                                                          | Year ended<br>September 30,<br>2011 |
|----------------------------------------------------------|-------------------------------------|
| Cash and cash equivalents                                | \$ 2,812,053                        |
| Accounts receivable                                      | 2,016,998                           |
| Materials and supplies inventory                         | 1,647,926                           |
| Prepaid expenses and other current assets                | 168,382                             |
| Total current assets held for sale                       | \$ 6,645,359                        |
| Property and equipment, net                              | \$ 5,931,544                        |
| Goodwill                                                 | 2,808,524                           |
| Total non-current assets held for sale                   | \$ 8,740,068                        |
| Accounts payable                                         | \$ 1,430,743                        |
| Accrued expenses                                         | 185,474                             |
| Accrued payroll, benefits and taxes                      | 748,682                             |
| Current portion of long-term debt                        | 285,895                             |
| Current portion of obligations under capital leases      | 126,203                             |
| Deferred revenue                                         | 78,970                              |
| Total current liabilities held for sale                  | \$ 2,855,967                        |
| Long-term debt, net of current portion                   | \$ 395,898                          |
| Obligations under capital leases, net of current portion | 220,705                             |
| Total non-current liabilities held for sale              | \$ 616,603                          |

### Financial Condition and Liquidity

At September 30, 2012, we had assets of \$19,209,329 consisting of cash in the amount of \$1,034,080; a current note receivable of \$1,350,000; a joint venture receivable of \$773,028; restricted cash of \$639,422; property, mineral rights, and equipment, net of depreciation of \$13,636,073; and other assets of \$1,776,726.

Disruptions in the credit and financial markets over the past several years have had a material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies. While access to capital has improved recently, these disruptions could, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all. If we are unable to obtain financing through equity investments, we will seek multiple solutions including, but not limited to, asset sales, credit facilities or debenture issuances.

At September 30, 2012 our working capital balance was \$2,134,871, compared to working capital of \$255,731 at September 30, 2011. Management expects to maintain or increase the amount of working capital by monitoring discretionary exploration expenditures, minimizing professional and consulting expenses, and potentially obtaining financing through equity investments. We plan to continue exploration programs on our material exploration properties, to fund some exploratory activities and drilling on early-stage properties, and to seek additional acquisition opportunities.

During the year ended September 30, 2011, we entered into a non-binding letter of intent to sell our Timberline Drilling subsidiary. In November 2011, the sale of Timberline Drilling was completed in exchange for \$8 million in cash, an additional \$2 million in cash from the existing working capital of Timberline Drilling, a promissory note in the principal amount of \$1.35 million with an interest rate of 10% per annum, the assumption by the purchaser of approximately \$1 million of certain indebtedness of Timberline Drilling, and the provision of

future discounted drilling services, or cash, to us up to a total value of \$1,100,000 over a 5-year period. The total amount of consideration to be received by us was also subject to adjustment based upon the working capital of Timberline Drilling as of the closing date of the sale. This adjustment resulted in the receipt of additional cash consideration of \$1,657,625.

In conjunction with the sale of Timberline Drilling during the year ended September 30, 2012, we repaid our \$5,000,000 convertible term note payable to Juniper Resources, LLC, an entity controlled by Ron Guill, a director of the Company. As a result, as of the date of filing of this report, we have no outstanding debt and a balance of cash on hand of approximately \$500,000.

For additional information regarding the operating, investing and financing cash flows associated with our discontinued operations, please refer to Note 14 to our consolidated financial statements contained in Item 8 of this Annual Report.

As a result of our current cash balance, our ability to curtail discretionary exploration expenditures as needed, and the expected satisfaction of our current note receivable of \$1,350,000 from the sale of Timberline Drilling, management believes that it has sufficient working capital to meet our ongoing operating expenses for the next 12 months. However, additional financing will be required if we wish to fully implement our currently planned exploration programs or explore additional property acquisitions.

#### *Financing activities*

In February 2011, we initiated a registered direct offering of our common stock to institutional investors in the United States. We entered into securities purchase agreements to sell 5,263,158 shares of common stock at a price of \$0.95 per share for gross proceeds of \$5,000,000, and the offering closed in March 2011. We incurred \$431,013 in expenses with respect to the offering, resulting in net proceeds of \$4,568,987. Proceeds from the offering were used to fund ongoing exploration activities at our Lookout Mountain Project, as well as for general working capital.

On October 31, 2008 we entered into a convertible note with Small Mine Development (“SMD”), a company owned by Ron Guill, a director of the Company. The convertible note has a principal amount of \$5 million and is collateralized with all of the stock of Timberline Drilling, Inc., as well as a Deed of Trust covering our Butte Highlands property in Silver Bow County, Montana (the “Butte Highlands Property”) and a right of first refusal over our Butte Highlands property (the “Right of First Refusal”).

The convertible note bears interest at 10% annually, compounded monthly, with interest payments due at maturity on October 31, 2010. The convertible note, including accrued interest, is convertible into common stock by SMD at any time prior to payment of the note in full, at a conversion price of \$1.50 per share. Should we issue any form of equity security other than our common stock, SMD may also convert all or any portion of the outstanding amount under the Convertible Term Note into the new form of equity security at the issuance price of the new form of equity security. The convertible note may be prepaid in whole or in part at any time without premium or penalty. If we default on the convertible note, SMD may declare the convertible note immediately due and payable, and we must pay SMD an origination fee in the amount of \$50,000.

Under the Right of First Refusal, we granted SMD a right of first refusal to purchase the Butte Highlands Property on the same terms as those of any bona fide offer from a third-party upon 60 days’ notice from the Company of any such offer. In addition, we granted SMD a right to develop the Butte Highlands Property on the same terms as those of any bona fide offer to develop the property from a third-party upon 60 days’ notice from us of any such offer.

In June 2010, SMD agreed to extend the maturity date of the convertible note to on or before April 30, 2012. We paid all interest accrued through June 30, 2010 to SMD at that time. We also paid a \$50,000 extension fee to SMD in consideration for the extension of the convertible note. The convertible note was also amended to require interest accrued subsequent to June 30, 2010 to be paid by us to SMD monthly, rather than accruing interest to maturity. All other terms of the loan were unchanged.

Effective December 31, 2010 SMD assigned the convertible note and all related agreements and rights to Juniper Resources, LLC, an entity also controlled by Ron Guill.

During the year ended September 30, 2012, we repaid the entire balance of the convertible note and accrued interest as of the date of repayment and cancelled all of the related agreements.

#### **Off-Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, results of operations, liquidity or capital expenditures.

## **Critical Accounting Policies and Estimates**

See Note 2 to our consolidated financial statements contained in Item 8 of this Annual Report for a complete summary of the significant accounting policies used in the presentation of our financial statements. As described in Note 2, we are required to make estimates and assumptions that affect the reported amounts and related disclosures of assets, liabilities, revenue and expenses. We believe that our most critical accounting estimates are related to asset impairments and asset retirement obligations.

Our critical accounting policies and estimates are as follows:

### ***Asset Impairments***

Significant property acquisition payments for active exploration properties are capitalized. The evaluation of our mineral properties for impairment is based on market conditions for minerals, underlying mineralized material associated with the properties, and future costs that may be required for ultimate realization through mining operations or by sale. If no mineable ore body is discovered, or market conditions for minerals deteriorate, there is the potential for a material adjustment to the value assigned to mineral properties.

We review the carrying value of equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the equipment is used, and the effects of obsolescence, demand, competition, and other economic factors.

### ***Asset Retirement Obligations***

We have an obligation to reclaim its properties after the surface has been disturbed by exploration methods at the site. As a result we have recorded a liability for the fair value of the reclamation costs we expects to incur in association with our South Eureka Property. We estimate applicable inflation and credit-adjusted risk-free rates as well as expected reclamation time frames. To the extent that the estimated reclamation costs change, such changes will impact future reclamation expense recorded. A liability is recognized for the present value of estimated environmental remediation (asset retirement obligation) in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The offsetting balance is charged to the related long-lived asset. Adjustments are made to the liability for changes resulting from passage of time and changes to either the timing or amount of the original present value estimate underlying the obligation.

### ***Recently Issued Accounting Standards***

In June 2009, the ASC guidance for consolidation accounting was updated to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. This statement is effective for fiscal years beginning after Nov. 15, 2009. Accordingly, we adopted this updated guidance in fiscal year 2011 with no material impact on the consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"). This standard will require entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The new requirements are generally effective for public entities in fiscal years (including interim periods) beginning after December 15, 2011. Management does not believe ASU 2011-05 will have a material effect on our consolidated financial statements.

### ***Contractual Obligations***

Timberline and its subsidiaries lease office space and storage facilities. All of these facilities, which we believe are adequate for our needs for the foreseeable future, are leased. Under the current leases, we paid rental payments of \$84,926 in the fiscal year ending September 30, 2012. The current leases call for the following fiscal year payments: \$70,700 (2013).

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Certain information contained in this "Management Discussion and Analysis" constitutes forward looking information and actual results could differ from estimates, expectations or beliefs contained in such statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**TIMBERLINE RESOURCES CORPORATION AND  
SUBSIDIARIES**

*Consolidated Financial Statements*

**September 30, 2012 and 2011**

# Timberline Resources Corporation and Subsidiaries

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Timberline Resources Corporation:

We have audited the accompanying consolidated balance sheets of Timberline Resources Corporation (“the Company”) as of September 30, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Timberline Resources Corporation as of September 30, 2012 and 2011, and the results of its consolidated operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*DeCoria, Maichel & Teague, P.S.*

DeCoria, Maichel & Teague, P.S.  
Spokane, Washington  
December 7, 2012



**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEETS**

|                                                                                                                                       | September 30,<br>2012 | September 30,<br>2011 |
|---------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>ASSETS</b>                                                                                                                         |                       |                       |
| CURRENT ASSETS:                                                                                                                       |                       |                       |
| Cash and cash equivalents                                                                                                             | \$ 1,034,080          | \$ 1,827,896          |
| Prepaid expenses and other current assets                                                                                             | 67,660                | 261,336               |
| Joint venture receivable                                                                                                              | 773,028               | 97,626                |
| Note receivable                                                                                                                       | 1,350,000             | -                     |
| Current portion of deferred financing cost with related party, net                                                                    | -                     | 15,909                |
| Assets held for sale - current                                                                                                        | -                     | 6,645,359             |
| <b>TOTAL CURRENT ASSETS</b>                                                                                                           | <b>3,224,768</b>      | <b>8,848,126</b>      |
| <b>PROPERTY, MINERAL RIGHTS AND EQUIPMENT</b>                                                                                         | <b>13,636,073</b>     | <b>12,619,092</b>     |
| <b>OTHER ASSETS:</b>                                                                                                                  |                       |                       |
| Prepaid drilling services                                                                                                             | 887,116               | -                     |
| Investment in joint venture                                                                                                           | 642,450               | 642,450               |
| Restricted cash                                                                                                                       | 639,422               | 438,336               |
| Deposits and other assets                                                                                                             | 179,500               | 153,094               |
| Available-for-sale equity securities (cost-\$50,000)                                                                                  | -                     | 536,400               |
| Assets held for sale – non current                                                                                                    | -                     | 8,740,068             |
| <b>TOTAL OTHER ASSETS</b>                                                                                                             | <b>2,348,488</b>      | <b>10,510,348</b>     |
| <b>TOTAL ASSETS</b>                                                                                                                   | <b>\$ 19,209,329</b>  | <b>\$ 31,977,566</b>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                           |                       |                       |
| CURRENT LIABILITIES:                                                                                                                  |                       |                       |
| Accounts payable                                                                                                                      | \$ 929,229            | \$ 419,524            |
| Accrued expenses                                                                                                                      | 111,667               | 233,417               |
| Accrued payroll, benefits and taxes                                                                                                   | 49,001                | 41,820                |
| Accrued interest on convertible note payable to related party                                                                         | -                     | 41,667                |
| Convertible note payable to related party                                                                                             | -                     | 5,000,000             |
| Liabilities held for sale – current                                                                                                   | -                     | 2,855,967             |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                                      | <b>1,089,897</b>      | <b>8,592,395</b>      |
| <b>LONG-TERM LIABILITIES:</b>                                                                                                         |                       |                       |
| Asset retirement obligation                                                                                                           | 119,831               | 114,125               |
| Liabilities held for sale – non current                                                                                               | -                     | 616,603               |
| <b>TOTAL LONG-TERM LIABILITIES</b>                                                                                                    | <b>119,831</b>        | <b>730,728</b>        |
| <b>COMMITMENTS (NOTE 15)</b>                                                                                                          | <b>-</b>              | <b>-</b>              |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                          |                       |                       |
| Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding                                          | -                     | -                     |
| Common stock, \$0.001 par value; 100,000,000 shares authorized, 62,271,879 and 61,189,417 shares issued and outstanding, respectively | 62,272                | 61,189                |
| Additional paid-in capital                                                                                                            | 56,198,035            | 55,317,568            |
| Accumulated deficit                                                                                                                   | (31,678,445)          | (33,210,714)          |
| Accumulated deficit during the exploration stage                                                                                      | (6,582,261)           | -                     |
| Accumulated other comprehensive income:                                                                                               |                       |                       |
| Unrealized gain on available-for-sale equity security                                                                                 | -                     | 486,400               |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                                                                                                     | <b>17,999,601</b>     | <b>22,654,443</b>     |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                     | <b>\$ 19,209,329</b>  | <b>\$ 31,977,566</b>  |

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

|                                                                                             | Year ended<br>September 30, |                       | From Inception of<br>Exploration Stage<br>November 9, 2011<br>Through<br>September 30, 2012 |
|---------------------------------------------------------------------------------------------|-----------------------------|-----------------------|---------------------------------------------------------------------------------------------|
|                                                                                             | 2012                        | 2011                  |                                                                                             |
| <b>OPERATING EXPENSES:</b>                                                                  |                             |                       |                                                                                             |
| Mineral exploration expenses                                                                | \$ 4,947,652                | \$ 4,367,861          | \$ 4,541,712                                                                                |
| Gain on lease of mineral rights                                                             | (75,000)                    | -                     | (75,000)                                                                                    |
| Salaries and benefits                                                                       | 1,032,427                   | 1,075,044             | 982,115                                                                                     |
| Professional fees expense                                                                   | 271,946                     | 306,289               | 237,982                                                                                     |
| Insurance expense                                                                           | 97,330                      | 89,849                | 95,591                                                                                      |
| Other general and administrative expenses                                                   | 903,937                     | 1,334,992             | 848,712                                                                                     |
| <b>TOTAL OPERATING EXPENSES</b>                                                             | <b>7,178,292</b>            | <b>7,174,035</b>      | <b>6,631,112</b>                                                                            |
| <b>LOSS FROM OPERATIONS</b>                                                                 | <b>(7,178,292)</b>          | <b>(7,174,035)</b>    | <b>(6,631,112)</b>                                                                          |
| <b>OTHER INCOME (EXPENSE):</b>                                                              |                             |                       |                                                                                             |
| Foreign exchange gain (loss)                                                                | (333)                       | 5,774                 | 255                                                                                         |
| Interest income                                                                             | 128,327                     | 7,545                 | 128,204                                                                                     |
| Related party interest expense                                                              | (71,274)                    | (527,272)             | (29,608)                                                                                    |
| Impairment of available-for-sale securities                                                 | (50,000)                    | -                     | (50,000)                                                                                    |
| <b>TOTAL OTHER INCOME (EXPENSE)</b>                                                         | <b>6,720</b>                | <b>(513,953)</b>      | <b>48,851</b>                                                                               |
| <b>LOSS BEFORE INCOME TAXES</b>                                                             | <b>(7,171,572)</b>          | <b>(7,687,988)</b>    | <b>(6,582,261)</b>                                                                          |
| <b>INCOME TAX BENEFIT</b>                                                                   | <b>-</b>                    | <b>852,122</b>        | <b>-</b>                                                                                    |
| <b>LOSS FROM CONTINUING OPERATIONS</b>                                                      | <b>(7,171,572)</b>          | <b>(6,835,866)</b>    | <b>(6,582,261)</b>                                                                          |
| <b>DISCONTINUED OPERATIONS (NOTE 14):</b>                                                   |                             |                       |                                                                                             |
| Net income, net of taxes                                                                    | 484,642                     | 4,506,356             | -                                                                                           |
| Gain on disposal                                                                            | 1,636,938                   | -                     | -                                                                                           |
| <b>TOTAL INCOME FROM DISCONTINUED OPERATIONS</b>                                            | <b>2,121,580</b>            | <b>4,506,356</b>      | <b>-</b>                                                                                    |
| <b>NET LOSS</b>                                                                             | <b>(5,049,992)</b>          | <b>(2,329,510)</b>    | <b>(6,582,261)</b>                                                                          |
| <b>OTHER COMPREHENSIVE INCOME (LOSS):</b>                                                   |                             |                       |                                                                                             |
| Unrealized gain on available-for-sale equity securities                                     | -                           | 29,800                | -                                                                                           |
| Reclassification of net loss on available-for-sale equity securities included in net loss   | (486,400)                   | -                     | (486,400)                                                                                   |
| <b>COMPREHENSIVE LOSS</b>                                                                   | <b>\$ (5,536,392)</b>       | <b>\$ (2,299,710)</b> | <b>\$ (7,068,661)</b>                                                                       |
| <b>NET INCOME (LOSS) PER SHARE AVAILABLE TO<br/>COMMON STOCKHOLDERS, BASIC AND DILUTED:</b> |                             |                       |                                                                                             |
| CONTINUING OPERATIONS                                                                       | \$ (0.11)                   | \$ (0.12)             |                                                                                             |
| DISCONTINUED OPERATIONS                                                                     | 0.03                        | 0.08                  |                                                                                             |
| <b>NET INCOME (LOSS)</b>                                                                    | <b>\$ (0.08)</b>            | <b>\$ (0.04)</b>      |                                                                                             |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES<br/>OUTSTANDING, BASIC AND DILUTED</b>          | <b>61,795,781</b>           | <b>58,898,465</b>     |                                                                                             |

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

|                                                                                               | Common Stock      |                  | Additional           | Accumulated            | Exploration           | Accumulated | Other         | Total             |
|-----------------------------------------------------------------------------------------------|-------------------|------------------|----------------------|------------------------|-----------------------|-------------|---------------|-------------------|
|                                                                                               | Shares            | Amount           | Paid-in              | Deficit                | Stage                 | Deficit     | Comprehensive | Stockholders'     |
|                                                                                               |                   |                  | Capital              |                        | Accumulated           |             | Income        | Equity            |
| Balance, September 30, 2010                                                                   | 55,649,064        | \$ 55,649        | \$ 49,803,825        | \$ (30,881,204)        | \$ -                  | \$ 456,600  | \$            | 19,434,870        |
| Common stock issued for cash at \$0.95 per share,<br>net of offering costs                    | 5,263,158         | 5,263            | 4,563,724            | -                      | -                     | -           | -             | 4,568,987         |
| Common stock issued for options exercised                                                     | 240,895           | 241              | 48,809               | -                      | -                     | -           | -             | 49,050            |
| Common stock bonuses to employees                                                             | 36,300            | 36               | 39,168               | -                      | -                     | -           | -             | 39,204            |
| Vested portion of stock options granted                                                       | -                 | -                | 862,042              | -                      | -                     | -           | -             | 862,042           |
| Unrealized gain on available-for-sale equity<br>securities                                    | -                 | -                | -                    | -                      | -                     | 29,800      | -             | 29,800            |
| Net loss                                                                                      | -                 | -                | -                    | (2,329,510)            | -                     | -           | -             | (2,329,510)       |
| Balance, September 30, 2011                                                                   | 61,189,417        | \$ 61,189        | \$ 55,317,568        | \$ (33,210,714)        | \$ -                  | \$ 486,400  | \$            | 22,654,443        |
| Common stock issued for options exercised                                                     | 162,527           | 163              | 11,387               | -                      | -                     | -           | -             | 11,550            |
| Vested portion of stock options granted                                                       | -                 | -                | 370,000              | -                      | -                     | -           | -             | 370,000           |
| Common stock issued for mineral rights,<br>property and equipment purchase                    | 919,935           | 920              | 499,080              | -                      | -                     | -           | -             | 500,000           |
| Reclassification of net loss on available-for-<br>sale equity securities included in net loss | -                 | -                | -                    | -                      | -                     | (486,400)   | -             | (486,400)         |
| Net income (loss)                                                                             | -                 | -                | -                    | 1,532,269              | (6,582,261)           | -           | -             | (5,049,992)       |
| Balance, September 30, 2012                                                                   | <u>62,271,879</u> | <u>\$ 62,272</u> | <u>\$ 56,198,035</u> | <u>\$ (31,678,445)</u> | <u>\$ (6,582,261)</u> | <u>\$ -</u> | <u>\$</u>     | <u>17,999,601</u> |

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                                      | Year Ended September 30, |                     | From Inception of<br>Exploration Stage<br>November 9, 2011<br>Through<br>September 30, 2012 |
|------------------------------------------------------------------------------------------------------|--------------------------|---------------------|---------------------------------------------------------------------------------------------|
|                                                                                                      | 2012                     | 2011                |                                                                                             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                         |                          |                     |                                                                                             |
| Net loss                                                                                             | \$ (5,049,992)           | \$ (2,329,510)      | \$ (6,582,261)                                                                              |
| Adjustments to reconcile net loss to net cash used by operating activities:                          |                          |                     |                                                                                             |
| Depreciation and amortization                                                                        | 187,481                  | 1,691,381           | 51,019                                                                                      |
| Stock based compensation                                                                             | 370,000                  | 901,246             | 328,000                                                                                     |
| Accretion of asset retirement obligation                                                             | 5,706                    | (5,253)             | 5,706                                                                                       |
| Amortization of deferred financing cost with related party                                           | 15,909                   | 27,273              | 15,909                                                                                      |
| Impairment of available-for-sale securities                                                          | 50,000                   | -                   | 50,000                                                                                      |
| Gain on lease of mineral rights                                                                      | (75,000)                 | -                   | (75,000)                                                                                    |
| Gain on sale of discontinued operations                                                              | (1,636,938)              | -                   | -                                                                                           |
| Gain on disposal of equipment                                                                        | -                        | (2,806)             | -                                                                                           |
| Deferred income taxes                                                                                | -                        | (852,122)           | -                                                                                           |
| Loss on disposal of assets held for sale                                                             | -                        | 10,455              | -                                                                                           |
| Changes in assets and liabilities:                                                                   |                          |                     |                                                                                             |
| Accounts receivable                                                                                  | 1,837,928                | (1,108,640)         | -                                                                                           |
| Materials and supplies inventory                                                                     | 1,577,703                | (282,871)           | -                                                                                           |
| Prepaid drilling service, prepaid expenses and other current assets, deposits and other assets       | 807,450                  | (44,664)            | 464,854                                                                                     |
| Joint venture receivable                                                                             | (675,402)                | (67,055)            | (732,618)                                                                                   |
| Accounts payable                                                                                     | (1,068,564)              | (664,920)           | 528,283                                                                                     |
| Accrued expenses                                                                                     | (285,266)                | (122,102)           | 111,667                                                                                     |
| Accrued payroll, benefits and taxes                                                                  | (660,010)                | 116,395             | 49,001                                                                                      |
| Deferred revenue                                                                                     | (78,970)                 | 33,970              | -                                                                                           |
| Accrued interest on convertible note payable to related party                                        | (41,667)                 | -                   | -                                                                                           |
| Receivable from sale of discontinued operations                                                      | -                        | -                   | 1,657,625                                                                                   |
| Net cash used by operating activities                                                                | <u>(4,719,632)</u>       | <u>(2,699,223)</u>  | <u>(4,127,815)</u>                                                                          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                         |                          |                     |                                                                                             |
| Proceeds from sale of discontinued operations                                                        | 8,000,000                | -                   | -                                                                                           |
| Purchase of property, mineral rights and equipment                                                   | (618,000)                | (1,112,006)         | (584,000)                                                                                   |
| Change in restricted cash                                                                            | (201,086)                | (58,384)            | (201,086)                                                                                   |
| Change in other assets                                                                               | (50,000)                 | -                   | (50,000)                                                                                    |
| Proceeds from sale of equipment                                                                      | -                        | 35,816              | -                                                                                           |
| Proceeds from sale of assets held for sale                                                           | -                        | 156,500             | -                                                                                           |
| Change in investment in joint venture                                                                | -                        | (21,450)            | -                                                                                           |
| Net cash provided (used) by investing activities                                                     | <u>7,130,914</u>         | <u>(999,524)</u>    | <u>(835,086)</u>                                                                            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                         |                          |                     |                                                                                             |
| Payments on convertible note payable to related party                                                | (5,000,000)              | -                   | (5,000,000)                                                                                 |
| Payments on long term debt                                                                           | (681,793)                | (485,660)           | -                                                                                           |
| Payments on capital leases                                                                           | (346,908)                | (282,355)           | -                                                                                           |
| Proceeds from exercise of stock options                                                              | 11,550                   | 49,050              | 11,550                                                                                      |
| Proceeds from issuance of stock, net of stock offering costs                                         | -                        | 4,568,987           | -                                                                                           |
| Payments on customer advances                                                                        | -                        | (150,000)           | -                                                                                           |
| Net cash provided (used) by financing activities                                                     | <u>(6,017,151)</u>       | <u>3,700,022</u>    | <u>(4,988,450)</u>                                                                          |
| Net increase (decrease) in cash and cash equivalents                                                 | (3,605,869)              | 1,275               | (9,951,351)                                                                                 |
| <b>CASH AND CASH EQUIVALENTS INCLUDED IN CURRENT ASSETS HELD FOR SALE AT BEGINNING (END) OF YEAR</b> | 2,812,053                | (2,812,053)         | -                                                                                           |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                                | 1,827,896                | 4,638,674           | 10,985,431                                                                                  |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                                      | <u>\$ 1,034,080</u>      | <u>\$ 1,827,896</u> | <u>\$ 1,034,080</u>                                                                         |

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                | Year Ended September 30, |             | From Inception of<br>Exploration Stage<br>November 9, 2011<br>Through<br>September 30, 2012 |
|----------------------------------------------------------------|--------------------------|-------------|---------------------------------------------------------------------------------------------|
|                                                                | <u>2012</u>              | <u>2011</u> | <u></u>                                                                                     |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>                      |                          |             |                                                                                             |
| Interest paid in cash                                          | \$ 68,023                | \$ 633,461  | \$ -                                                                                        |
| <b>NON-CASH FINANCING AND INVESTING ACTIVITIES</b>             |                          |             |                                                                                             |
| Note receivable from sale of discontinued operations           | \$ 1,350,000             | \$ -        | \$ -                                                                                        |
| Prepaid drilling services from sale of discontinued operations | 1,100,000                | -           | -                                                                                           |
| Common stock issued for mineral rights purchase                | 500,000                  | -           | 500,000                                                                                     |
| Other assets received from lease of mineral rights             | 50,000                   | -           | 50,000                                                                                      |
| Non-current assets held for sale                               | -                        | 8,740,068   | -                                                                                           |
| Non-current liabilities held for sale                          | -                        | 616,603     | -                                                                                           |
| Long term debt issued for property and equipment purchase      | -                        | 41,600      | -                                                                                           |

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS:**

Timberline Resources Corporation (“Timberline” or “the Company”, “we”, “us”, “our”) was incorporated in August of 1968 under the laws of the State of Idaho as Silver Crystal Mines, Inc., for the purpose of exploring for precious metal deposits and advancing them to production.

In 2006, we acquired Kettle Drilling, Inc. and its Mexican subsidiary, World Wide Exploration S.A. de C.V. (“World Wide”). In September 2008, Kettle Drilling, Inc. changed its name to Timberline Drilling Incorporated (“Timberline Drilling”). Timberline Drilling provides drilling services to the mining and mineral exploration industries in the United States. In November 2011, we closed the sale of Timberline Drilling and World Wide (see Note 14) and became an exploration stage enterprise.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

- a. *Basis of Presentation* – This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of our management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.
- b. *Exploration Stage Enterprise* – Following the sale of Timberline Drilling, we are now in the exploration stage of operation. Therefore, as of November 9, 2011, our financial statements are prepared in accordance with the provisions of ASC 915 *Development Stage Enterprises*, as we devote substantially all of our efforts to acquiring and exploring mining interests that management believes should eventually provide sufficient net profits to sustain our existence. Until such interests are engaged in commercial production, we will continue to prepare our consolidated financial statements and related disclosures in accordance with this standard.
- c. *Principles of Consolidation* – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Staccato Gold Resources, Ltd. and BH Minerals USA, Inc., after elimination of intercompany accounts and transactions.
- d. *Exploration Expenditures* – All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable ore body is discovered, previously capitalized costs are expensed in the period the property is abandoned.
- e. *Fair Value of Financial Instruments* – Our financial instruments include cash, restricted cash, note receivable, investments, and accounts payable. The carrying value of restricted cash and note receivable approximate fair value based on the contractual terms of those instruments.
- f. *Cash Equivalents* – For the purposes of the statement of cash flows, we consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Balances are insured by the Federal Deposit Insurance Corporation up to an unlimited and \$250,000 amount for non-interest bearing and interest bearing accounts, respectively, at each financial institution.
- g. *Restricted Cash* – Restricted cash represents funds restricted as collateral for bonds held for exploration permits.
- h. *Estimates and Assumptions* – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management assumptions and estimates relate to asset impairments and asset retirement obligations. Actual results could differ from these estimates and assumptions and could have a material effect on our reported financial position and results of operations.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):**

- i. *Investments* – Available-for-sale securities are initially recorded at cost and then carried at fair value, with unrealized gains or losses recorded as a component of equity, unless a decline in value of the security is considered other than temporary. Realized gains and losses and other than temporary impairments are recorded in the statement of operations. We also have a 50% interest in a joint venture at our Butte Highlands Gold Project (see Note 5). Given that our 50% interest in the joint venture is carried to production, we do not have management control over operating decisions of the joint venture until our joint venture partner's investment in the project, less \$2 million, is recovered by the joint venture partner out of future production; and we have no risk of loss from expenses incurred by the joint venture until production, we are carrying our investment in the joint venture at cost on its consolidated balance sheet.
- j. *Property and Equipment* – Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which ranges from two to seven years. Maintenance and repairs are charged to operations as incurred. Significant improvements are capitalized and depreciated over the useful life of the assets. Gains or losses on disposition or retirement of property and equipment are recognized in operating expenses.
- k. *Review of Carrying Value of Property, Mineral Rights and Equipment for Impairment* – We review the carrying value of property, mineral rights and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment, no impairments were recorded at September 30, 2012 or September 30, 2011.
- l. *Asset Retirement Obligations* – The Company accounts for asset retirement obligations by following the uniform methodology for accounting for estimated reclamation and abandonment costs as prescribed by authoritative accounting guidance. This guidance provides that the fair value of a liability for an asset retirement obligation ("ARO") will be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The ARO is capitalized as part of the carrying value of the assets to which it is associated, and depreciated over the useful life of the asset. Adjustments are made to the liability for changes resulting from passage of time and changes to either the timing or amount of the original present value estimate underlying the obligation. We have an asset retirement obligation associated with our exploration program at the Lookout Mountain exploration project (see Note 10).
- m. *Provision for Income Taxes* – Income taxes are provided based upon the liability method of accounting. Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against the deferred tax asset if management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized (see Note 11).
- n. *Translation of Foreign Currencies* – All amounts in the financial statements are presented in US dollars, and the US dollar is our functional currency. We have a Canadian subsidiary, but this subsidiary has no operations, assets or liabilities in Canada for the years ended September 30, 2012 and 2011, respectively. Foreign translation and transaction gains (losses) from continuing operations, relating to expenses incurred in Canada by Timberline, of (\$333) and \$5,774 for the years ended September 30, 2012 and 2011, respectively, have been included in the current period net loss as a component of other expense.
- o. *Stock-based Compensation* – We estimate the fair value of our stock based compensation using the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them ("expected life"), the estimated volatility of our common stock price over the expected term ("volatility"), employee forfeiture rate, the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation. The value of common stock awards is determined based upon the closing price of our stock on the date of the award.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued):**

- p. *Net Loss per Share* – Basic earnings per share (“EPS”) is computed as net income (loss) available to common shareholders divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

The dilutive effect of convertible and outstanding securities as of September 30, 2012 and 2011 is as follows:

|                          | <u>2012</u>      | <u>2011</u>       |
|--------------------------|------------------|-------------------|
| Stock options            | 6,491,500        | 6,412,333         |
| Warrants                 | -                | 1,697,938         |
| Convertible debt         | -                | 3,333,333         |
| Total potential dilution | <u>6,491,500</u> | <u>11,443,604</u> |

At September 30, 2012 and 2011, the effect of the Company’s outstanding stock options and common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

- q. *Discontinued Operations* – A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations. Results from discontinued operations that are clearly identifiable as part of the component disposed of and that will not be recognized subsequent to the disposal are presented separately as a single amount in the consolidated statement of operations and comprehensive income (loss). Results from discontinued operations are reclassified for prior periods presented in the financial statements so that the results from discontinued operations relate to all operations that have been discontinued as of the balance sheet date for the latest period presented.
- r. *New Accounting Pronouncements* – In June 2009, the ASC guidance for consolidation accounting was updated to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. The statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The statement is effective for fiscal years beginning after Nov. 15, 2009. We adopted this guidance in fiscal year 2011 without a material effect on our consolidated financial statements.

In January 2010, the ASC guidance for fair value measurements was updated to require additional disclosures related to movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy. Also, a reconciliation of purchases, sales, issuance, and settlements of anything valued with a Level 3 method is required. Disclosure regarding fair value measurements for each class of assets and liabilities is required. We adopted the updated guidance in our quarter ending December 31, 2009, except for disclosures about the activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this updated guidance did not have a material impact on our consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (“ASU 2011-05”). This standard requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The new requirements are generally effective for public entities in fiscal years (including interim periods) beginning after December 15, 2011. Management does not believe ASU 2011-05 will have a material effect on our consolidated financial statements.

- s. *Reclassifications* – Certain reclassifications have been made to the 2011 financial statements in order to conform to the 2012 presentation. These reclassifications have no effect on net loss, total assets or accumulated deficit as previously reported.



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**NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The table below sets forth our financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2012 and 2011, respectively, and the fair value calculation input hierarchy level that we have determined applies to each asset and liability category.

|                                      |    | <u>2012</u> | <u>2011</u>  | <u>Input<br/>Hierarchy<br/>Level</u> |
|--------------------------------------|----|-------------|--------------|--------------------------------------|
| Assets:                              |    |             |              |                                      |
| Cash and cash equivalents            | \$ | 1,034,080   | \$ 1,827,896 | Level 1                              |
| Restricted cash                      |    | 639,422     | 438,336      | Level 1                              |
| Available-for-sale equity securities |    | -           | 536,400      | Level 2                              |

**NOTE 4 – PROPERTY, MINERAL RIGHTS AND EQUIPMENT:**

The following is a summary of property, mineral rights and equipment and accumulated depreciation at September 30, 2012 and 2011:

|                                              | <u>Expected<br/>Useful Lives<br/>(years)</u> | <u>2012</u>          | <u>2011</u>          |
|----------------------------------------------|----------------------------------------------|----------------------|----------------------|
| Mineral rights                               | -                                            | \$ 13,526,342        | \$ 12,458,342        |
| Equipment and vehicles                       | 2-5                                          | 185,692              | 185,692              |
| Office equipment and furniture               | 3-7                                          | 70,150               | 70,150               |
| Land                                         | -                                            | 51,477               | 51,477               |
| Total property, mineral rights and equipment |                                              | 13,833,661           | 12,765,661           |
| Less accumulated depreciation                |                                              | (197,588)            | (146,569)            |
| Property, mineral rights and equipment, net  |                                              | <u>\$ 13,636,073</u> | <u>\$ 12,619,092</u> |

Depreciation expense from continuing operations for the years ended September 30, 2012 and 2011 was \$51,019 and \$35,876, respectively.

**NOTE 5 – INVESTMENT IN JOINT VENTURE:**

In July 2009, we entered into a joint venture operating agreement (the “Agreement”) with Highland Mining, LLC (“Highland”), an entity formerly controlled by Ronald Guill, a director of the Company (see Note 9). The joint venture entity, Butte Highlands JV, LLC (“BHJV”) was created for the purpose of developing and mining the Butte Highlands Gold Project. As a result of our contribution of our 100% interest in the Butte Highlands Gold Project, carried on our balance sheet at the original purchase price of the Butte Highlands project (\$621,000) to BHJV, we hold a 50% interest in BHJV. Under terms of the agreement, our interest in BHJV will be carried to production by Highland, which will fund all future project exploration and mine development costs. During the year ended September 30, 2011 our investment in joint venture was increased by \$21,450 due to the release by the State of Montana of reclamation bonds that were in place prior to the creation of BHJV. Under the Agreement, these funds were contributed to BHJV upon their release.

Under the Agreement, Highland contributed property and will fund all future mine development costs at Butte Highlands. Both the Company’s and Highland’s share of development costs will be paid from proceeds of future mine production. The Agreement stipulates that Highland shall appoint a manager of BHJV and that Highland will manage BHJV until such time as all mine development costs, less \$2 million (the deemed value of our contribution of property to BHJV), are distributed to Highland out of the proceeds from future mine production.

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**NOTE 6 – NOTE RECEIVABLE:**

We have a \$1,350,000 note receivable as a portion of the consideration received from the sale of Timberline Drilling in November 2011 (see Note 14). The note receivable is unsecured and subordinated and bears interest at 10% per annum, payable monthly, with the principal to be repaid on or before May 9, 2013. We recorded interest income of \$120,945 and zero for the years ended September 30, 2012 and 2011, respectively.

**NOTE 7 – PREPAID DRILLING SERVICES:**

During the year ended September 30, 2012, we obtained \$1,100,000 in prepaid drilling services as a portion of the consideration received from the sale of Timberline Drilling (see Note 14). The prepayment amount represents discounts on future drilling services or cash, if we do not use the prepaid drilling services, to be provided by Timberline Drilling to us between November 2011 and November 2016.

The following table summarizes activity in our prepaid drilling services at September 30, 2012:

|                                    | <u>2012</u>       |
|------------------------------------|-------------------|
| Beginning balance                  | \$ -              |
| Prepaid drilling services acquired | 1,100,000         |
| Prepaid drilling services used     | (212,884)         |
| Ending balance                     | <u>\$ 887,116</u> |

**NOTE 8 – AVAILABLE-FOR-SALE EQUITY SECURITIES:**

Available-for-sale equity securities is comprised of 2,980,000 shares of common stock in Rae Wallace Mining Company ("RWMC"), which have been valued as described below. The following table summarizes our available-for-sale equity securities:

|                                 | <b>Year Ended September 30,</b> |                   |
|---------------------------------|---------------------------------|-------------------|
|                                 | <u>2012</u>                     | <u>2011</u>       |
| Cost                            | \$ 50,000                       | \$ 50,000         |
| Unrealized Gain                 | -                               | 486,400           |
| Other Than Temporary Impairment | (50,000)                        | -                 |
| Fair Value                      | <u>\$ -</u>                     | <u>\$ 536,400</u> |

During the year ended September 30, 2012, management determined that the shares of common stock in RWMC had become other than temporarily impaired, and the shares were determined to have no fair value. The entire \$50,000 cost of RWMC shares of common stock was charged to loss from operations in the year ended September 30, 2012.

RWMC is also a related party to the Company (see Note 9).

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**NOTE 9 – RELATED PARTY TRANSACTIONS:**

*a. Juniper Resources, LLC*

Information regarding related party notes payable is as follows at September 30, 2012 and 2011:

|                                                            | <u>2012</u> | <u>2011</u>  |
|------------------------------------------------------------|-------------|--------------|
| Juniper Resources, LLC                                     | \$ -        | \$ 5,000,000 |
| Accrued interest on note payable to Juniper Resources, LLC | \$ -        | \$ 41,667    |
| Related party interest expense                             | \$ 71,274   | \$ 527,272   |

We had a convertible note payable to Juniper Resources, LLC, a company controlled by Ron Guill, a director.

During the year ended September 30, 2012, in conjunction with our sale of Timberline Drilling, Inc., the Convertible Term Note and all accrued interest was repaid in full and all related agreements were cancelled. (see Note 14).

*b. Butte Highlands Joint Venture Agreement*

On July 22, 2009, we entered into an operating agreement (the “Operating Agreement”) with Highland, an entity controlled by Ron Guill, a director of the Company, to form a 50/50 joint venture for development and mining of our Butte Highlands Gold Project (see Note 5). Under the terms of the Operating Agreement, we contributed its Butte Highlands property to BHJV for a deemed value of \$2 million, and Highland contributed certain property and will fund all future mine development costs. Both the Company’s and Highland’s share of costs will be paid out of proceeds from future mine production.

During the year ended September 30, 2012, Highland was sold to Montana State Gold Corporation (“MSGC”), a private corporation unaffiliated with the Company. As a result, Highland is no longer a related party to the Company, and Ron Guill is no longer the manager of BHJV. At September 30, 2012 and 2011, we have a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$773,028 and \$97,626, respectively. Subsequent to September 30, 2012, we collected the full balance of the receivable from BHJV.

*c. Rae Wallace Mining Company*

We are an affiliate of Rae Wallace Mining Company (“RWMC”), as we hold approximately 13% of the issued and outstanding stock of RWMC as of September 30, 2012 and 2011, respectively. During the year ended September 30, 2012, we determined that our investment in RWMC was other than temporarily impaired, and the fair value of our investment in RWMC was zero at September 30, 2012 (see Note 8).

*d. Sale of Timberline Drilling, Inc.*

In September 2011, we announced that we had entered into a non-binding letter of intent to sell its wholly owned subsidiary, Timberline Drilling, Inc., to a private company formed by a group of investors, including the senior management team of Timberline Drilling, Inc. No officers or directors of the Company are affiliated with the buyer. During the year ended September 30, 2012, the sale of Timberline Drilling, Inc. was completed (see Note 14).

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**NOTE 10 – ASSET RETIREMENT OBLIGATION:**

During the year ended September 30, 2011, we established an asset retirement obligation (“ARO”) in the amount of \$110,000 for our exploration program at the Lookout Mountain Project. The ARO resulted from the reclamation and remediation requirements of the United States Bureau of Land Management as outlined in our permit to carry out the exploration program. Estimated reclamation costs at the Lookout Mountain Project were discounted using a credit adjusted risk-free interest rate of 5% from the time we expect to pay the retirement obligation to the time it incurred the obligation, which is estimated at 10 years.

We also had an ARO of \$262,593 associated with the underground exploration program at the Butte Highlands Gold Project being performed by BHJV (see Note 5). The ARO resulted from the reclamation and remediation requirements of the Montana Department of Environmental Quality as outlined in our permit to carry out the exploration program. During the year ended September 30, 2011, our exploration permit was transferred to BHJV as the operator of the Butte Highlands Gold Project, thus relieving us of our reclamation and remediation obligations. Therefore, the ARO of \$250,089 and the related asset, along with accumulated accretion expense of \$12,504 associated with the Butte Highlands exploration program, were removed from our financial statements during the year ended September 30, 2011.

The following table summarizes activity in our ARO liability:

|                                        | <b>Year ended<br/>September 30,</b> |             |
|----------------------------------------|-------------------------------------|-------------|
|                                        | <b>2012</b>                         | <b>2011</b> |
| Beginning balance                      | \$ 114,125                          | \$ 259,467  |
| Obligations incurred                   | -                                   | 110,000     |
| Obligations released                   | -                                   | (250,089)   |
| Revision of previous accretion expense | -                                   | (12,504)    |
| Accretion expense                      | 5,706                               | 7,251       |
| Ending balance                         | \$ 119,831                          | \$ 114,125  |

**NOTE 11 – INCOME TAXES:**

Significant components of income tax benefit for the years ended September 30, 2012 and 2011 are as follows:

|                                   | <b>2012</b> | <b>2011</b> |
|-----------------------------------|-------------|-------------|
| Current:                          |             |             |
| Federal                           | \$ -        | \$ -        |
| State                             | -           | -           |
| Discontinued operations           | -           | -           |
| Total current income tax benefit  | -           | -           |
| Deferred:                         |             |             |
| Federal                           | -           | 852,122     |
| Foreign                           | -           | -           |
| Total deferred income tax benefit | -           | 852,122     |
| Total income tax benefit          | \$ -        | \$ 852,122  |

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**NOTE 11 – INCOME TAXES, (continued):**

The components of our deferred taxes are as follows:

|                                             | <u>2012</u>         | <u>2011</u>         |
|---------------------------------------------|---------------------|---------------------|
| Net deferred tax asset:                     |                     |                     |
| Exploration costs                           | \$ 1,136,000        | \$ 1,098,000        |
| Property, mineral rights and equipment      | 4,000               | (786,000)           |
| Intangible expenses                         | -                   | 890,000             |
| Foreign intangible expenses                 | (371,000)           | (371,000)           |
| Share based compensation                    | 2,167,000           | 2,136,000           |
| Alternative minimum tax credit carryforward | 19,000              |                     |
| Foreign income tax credit carryforwards     | 443,000             | 443,000             |
| Federal net operating losses                | 8,424,000           | 8,175,000           |
| Foreign net operating losses                | 2,070,000           | 2,019,000           |
| Total net deferred tax asset                | <u>13,892,000</u>   | <u>13,604,000</u>   |
| Valuation allowance                         | <u>(13,892,000)</u> | <u>(13,604,000)</u> |
| Deferred tax asset                          | <u>\$ -</u>         | <u>\$ -</u>         |
| <b>BH Minerals USA, Inc.</b>                |                     |                     |
| Net deferred tax asset (liability):         |                     |                     |
| Property, mineral rights and equipment      | \$ (3,759,000)      | \$ (3,757,000)      |
| Exploration costs                           | 2,809,000           | 1,753,000           |
| Federal net operating losses                | 2,594,000           | 2,240,000           |
| Total deferred tax asset (liability)        | <u>1,644,000</u>    | <u>206,000</u>      |
| Valuation allowance                         | <u>(1,644,000)</u>  | <u>(206,000)</u>    |
| Deferred tax asset (liability)              | <u>\$ -</u>         | <u>\$ -</u>         |

The federal income taxes of our wholly owned subsidiary, BH Minerals USA, Inc., are not consolidated with those of the rest of the Company since BH Minerals USA, Inc. is wholly owned by our Canadian subsidiary, Staccato Gold Resources Ltd.

As our management cannot determine that it is more likely than not that we will realize the benefit of the net deferred tax asset, a valuation allowance equal to 100% of the net deferred tax asset has been recorded at September 30, 2012 and 2011.

Net income (loss) before income taxes for the years ended September 30, 2012 and 2011 are as follows:

|                                                                   | <u>2012</u>           | <u>2011</u>           |
|-------------------------------------------------------------------|-----------------------|-----------------------|
| Continuing operations                                             | \$ (7,171,572)        | \$ (7,687,988)        |
| Discontinued operations                                           | 2,121,580             | 4,506,356             |
|                                                                   | <u>\$ (5,049,992)</u> | <u>\$ (3,181,632)</u> |
|                                                                   | <u>2012</u>           | <u>2011</u>           |
| Statutory Federal income tax rate                                 | 34%                   | 34%                   |
| Expected income tax benefit based on statutory rate               | \$ (1,717,000)        | \$ (1,082,000)        |
| Permanent differences                                             | 31,000                | 40,878                |
| Effect of state taxes                                             | (40,000)              | 49,000                |
| Non-recognition due to increase (decrease) in valuation allowance | <u>1,726,000</u>      | <u>140,000</u>        |
| Total income tax benefit                                          | <u>\$ -</u>           | <u>\$ (852,122)</u>   |

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***NOTE 11 – INCOME TAXES, (continued):***

We have concluded that the guidance regarding accounting for uncertainty in income taxes had no significant impact on our results of operations or financial position as of September 30, 2012 or 2011. Therefore, we do not have an accrual for uncertain tax positions as of September 30, 2012 or 2011. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date. Fiscal years 2009 through 2012 remain subject to examination by state and federal tax authorities.

At September 30, 2012, we had federal net operating loss carryforwards of approximately \$26,300,000 which will expire in fiscal years ending September 30, 2017 through September 30, 2031. Approximately \$7,142,000 of state net operating loss carryforwards will expire in fiscal years ending September 30, 2013 through September 30, 2032.

At September 30, 2012 we had \$433,000 of foreign tax credit carryforwards which expire in 2013. We also have approximately \$6,700,000 in net operating loss carryforwards in Canada which will expire in fiscal years ending September 30, 2015 through September 30, 2031.

The acquisition of Staccato Gold Resources Ltd. in 2010 had a significant impact on our deferred tax position. The acquisition added a net deferred tax liability of \$852,122 related to the purchase accounting. The entire balance of the deferred tax liability was eliminated in the year ended September 30, 2011 as a result of ongoing exploration expenditures and net operating losses incurred.

The Tax Reform Act of 1986 substantially changed the rules relative to the use of net operating loss and general business credit carryforwards in the event of an “ownership change” of a corporation. Due to the change in ownership in 2004, we are restricted in the future use of net operating losses generated before the ownership change. As of September 30, 2012, this limitation is applicable to accumulated federal net operating losses of approximately \$2,040,000.

Certain estimates for income tax for the year ended September 30, 2011 used in calculating income tax for the year ended September 30, 2012 have been revised to reflect the actual amounts per the tax returns filed with federal and state tax authorities. These revisions had no effect on the current or prior year income tax provision (benefit), or deferred tax assets or liabilities.

***NOTE 12 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:***

***Registered Direct Offering***

In February 2011, we initiated a registered direct offering of our common stock to institutional investors in the United States. We entered into securities purchase agreements to sell 5,263,158 shares of common stock at a price of \$0.95 per share for gross proceeds of \$5,000,000, and the offering closed on March 2, 2011. We incurred \$431,013 in expenses with respect to the offering, resulting in net proceeds of \$4,568,987.

***Stock Issued for Services***

During the year ended September 30, 2012 no shares of common stock were issued to our employees as incentive bonuses under our Amended 2005 Equity Incentive Plan.

During the year ended September 30, 2011, 36,300 shares of common stock were issued to our employees as incentive bonuses under our Amended 2005 Equity Incentive Plan. The common stock issued during the year ended September 30, 2011 was valued at the closing price of our common stock on the date of issue of \$1.08 per share, for a total cost of \$39,204 classified under salaries and benefits expense.

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**NOTE 12 – COMMON STOCK, WARRANTS AND PREFERRED STOCK, (continued):**

*Warrants*

The following is a summary of our warrants outstanding:

|                                   | <b>Shares</b> |    | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|-----------------------------------|---------------|----|------------------------------------------------|
| Outstanding at September 30, 2010 | 8,050,375     | \$ | 3.00                                           |
| Issued                            | -             |    | -                                              |
| Exercised                         | -             |    | -                                              |
| Expired                           | (6,352,437)   |    | (3.34)                                         |
| Outstanding at September 30, 2011 | 1,697,938     |    | 1.75                                           |
| Issued                            | -             |    | -                                              |
| Exercised                         | -             |    | -                                              |
| Expired                           | (1,697,938)   |    | (1.75)                                         |
| Outstanding at September 30, 2012 | -             | \$ | -                                              |

*Preferred Stock*

We are authorized to issue up to 10,000,000 shares of preferred stock, \$.01 par value. Our Board of Directors is authorized to issue the preferred stock from time to time in series, and is further authorized to establish such series, to fix and determine the variations in the relative rights and preferences as between series, to fix voting rights, if any, for each series, and to allow for the conversion of preferred stock into common stock.

**NOTE 13 – STOCK OPTIONS:**

We have established the 2005 Equity Incentive Plan (as amended by shareholders of the Company on May 28, 2010) to authorize the granting of up to 10,000,000 stock options to employees, directors and consultants. Upon exercise of options, shares are issued from the available authorized shares of the Company. Option awards are granted with an exercise price equal to the fair value of our stock at the date of grant. The fair value of each option award was estimated on the date of grant using the assumptions noted in the following table.

|                             | <b>2012</b>   | <b>2011</b>     |
|-----------------------------|---------------|-----------------|
| Expected volatility         | 83.7% - 95.4% | 112.9% - 113.0% |
| Weighted-average volatility | 84.7%         | 112.9%          |
| Expected dividends          | -             | -               |
| Expected term (in years)    | 3             | 3               |
| Risk-free rate              | 0.31% - 0.43% | 1.12% - 1.29%   |
| Expected forfeiture rate    | 0%            | 0%              |

Total compensation cost of options vested under the plan, charged against operations, is included in the consolidated statements of operations as follows:

|                                           | <b>Year ended September 30,<br/>2012</b> | <b>2011</b> |
|-------------------------------------------|------------------------------------------|-------------|
| Salaries and benefits                     | \$ 224,000                               | \$ 475,692  |
| Other general and administrative expenses | 146,000                                  | 386,350     |
| Total                                     | \$ 370,000                               | \$ 862,042  |

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**NOTE 13 – STOCK OPTIONS, (continued):**

The following is a summary of our options issued under the Stock Incentive Plan:

|                                                                                                            | <b>Shares</b> |    | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|------------------------------------------------------------------------------------------------------------|---------------|----|------------------------------------------------|
| Outstanding at September 30, 2010                                                                          | 6,203,641     | \$ | 0.96                                           |
| Granted                                                                                                    | 1,015,000     |    | 1.03                                           |
| Exercised                                                                                                  | (308,332)     |    | (0.36)                                         |
| Expired                                                                                                    | (497,976)     |    | (0.76)                                         |
| Outstanding at September 30, 2011                                                                          | 6,412,333     | \$ | 1.01                                           |
| Exercisable at September 30, 2011                                                                          | 6,412,333     | \$ | 1.01                                           |
| Weighted average fair value of options granted during the<br>year ended September 30, 2011                 |               | \$ | 0.70                                           |
| Outstanding at September 30, 2011                                                                          | 6,412,333     | \$ | 1.01                                           |
| Granted                                                                                                    | 1,350,000     |    | 0.51                                           |
| Exercised                                                                                                  | (398,333)     |    | (0.34)                                         |
| Expired                                                                                                    | (872,500)     |    | (1.14)                                         |
| Outstanding at September 30, 2012                                                                          | 6,491,500     | \$ | 0.93                                           |
| Exercisable at September 30, 2012                                                                          | 6,491,500     | \$ | 0.93                                           |
| Weighted average fair value of options granted during the<br>year ended September 30, 2012                 |               | \$ | 0.27                                           |
| Unrecognized compensation expense related to options at September 30, 2012                                 |               | \$ | -                                              |
| Average remaining contractual term of options outstanding and exercisable at<br>September 30, 2012 (years) |               |    | 2.47                                           |

Of the options exercised during the year ended September 30, 2012, 363,333 were on a cashless basis resulting in the issuance of 127,527 shares based on the current price of our common stock on the date of exercise. We received \$11,550 from the exercise of the remaining 35,000 options. Of the options exercised during the year ended September 30, 2011, 189,999 were on a cashless basis resulting in the issuance of 122,562 shares based on the current price of our common stock on the date of exercise. We received \$49,050 from the exercise of the remaining 118,333 options. The aggregate intrinsic value of options exercised during the year ending September 30, 2012 and 2011 was \$74,750 and \$213,589, respectively.

The aggregate intrinsic value of options both outstanding and exercisable as of September 30, 2012, before applicable income taxes, was \$128,700, based on the closing price of \$0.42 per share of our common stock at September 30, 2012.



**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 14 – DISCONTINUED OPERATIONS:**

*Timberline Drilling*

In September 2011, we announced that we had entered into a non-binding letter of intent to sell our wholly owned Timberline Drilling subsidiary. The results of operations for Timberline Drilling have been reported in discontinued operations for all periods presented. The sale of Timberline Drilling was completed in the year ended September 30, 2012. Total consideration received by us included \$8,000,000 in cash, an additional \$2,000,000 in cash from the existing working capital of Timberline Drilling, a working capital adjustment receivable by the Company in the amount of \$1,657,625, a \$1,350,000 note receivable, and an agreement by Timberline Drilling to provide discounted drilling services or cash with a total value of \$1,100,000 to us over five years, as well as the assumption by the purchaser of approximately \$1,000,000 in long-term debt and obligations under capital leases of Timberline Drilling. We recognized a \$1,636,938 gain on the sale of Timberline Drilling, but do not anticipate income taxes to arise from the gain (see Note 10).

The \$1,350,000 note receivable is unsecured and subordinated and bears interest at 10% per annum, payable monthly, with the principal to be repaid on or before May 9, 2013 (see Note 6).

In conjunction with the sale of Timberline Drilling, we repaid our \$5,000,000 convertible note and all accrued interest outstanding to Juniper Resources, LLC, a company controlled by Ron Guill, a director of the Company (see Note 9).

During the year ended September 30, 2012, the working capital adjustment receivable of \$1,657,625 was paid to us by Timberline Drilling.

The following table details selected financial information for Timberline Drilling, Inc. included in income from discontinued operations in the consolidated statements of operations for the years ended September 30, 2012 and 2011:

|                                         | <b>2012</b>  | <b>2011</b>   |
|-----------------------------------------|--------------|---------------|
| Revenues                                | \$ 3,173,633 | \$ 30,908,082 |
| Cost of revenues                        | (2,300,585)  | (23,629,156)  |
| Operating expenses                      | (372,437)    | (2,557,565)   |
| Interest and other income               | 188          | 3,627         |
| Interest expense                        | (16,157)     | (104,050)     |
| Net income                              | 484,642      | 4,620,938     |
| Gain on disposal                        | 1,636,938    | -             |
| Net income from discontinued operations | \$ 2,121,580 | \$ 4,620,938  |

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 14 – DISCONTINUED OPERATIONS, (continued):**

Our consolidated balance sheet had no assets and liabilities held for sale as of September 30, 2012. Our consolidated balance sheet had assets and liabilities held for sale from Timberline Drilling which were comprised of the following items at September 30, 2011:

|                                                          |    | <b>2011</b>      |
|----------------------------------------------------------|----|------------------|
| Cash and cash equivalents                                | \$ | 2,812,053        |
| Accounts receivable                                      |    | 2,016,998        |
| Materials and supplies inventory                         |    | 1,521,240        |
| Prepaid expenses and other current assets                |    | 142,732          |
| Total current assets held for sale                       | \$ | <u>6,493,023</u> |
| Property and equipment, net                              | \$ | 5,931,544        |
| Goodwill                                                 |    | 2,808,524        |
| Total non-current assets held for sale                   | \$ | <u>8,740,068</u> |
| Accounts payable                                         | \$ | 1,430,743        |
| Accrued expenses                                         |    | 185,474          |
| Accrued payroll, benefits and taxes                      |    | 748,682          |
| Current portion of long-term debt                        |    | 285,895          |
| Current portion of obligations under capital leases      |    | 126,203          |
| Deferred revenue                                         |    | 78,970           |
| Total current liabilities held for sale                  | \$ | <u>2,855,967</u> |
| Long-term debt, net of current portion                   | \$ | 395,898          |
| Obligations under capital leases, net of current portion |    | 220,705          |
| Total non-current liabilities held for sale              | \$ | <u>616,603</u>   |

Cash flows from discontinued operations at Timberline Drilling included in our consolidated statements of cash flows for the years ending September 30, 2012 and 2011 are as follows:

|                                               | <b>2012</b>       | <b>2011</b>         |
|-----------------------------------------------|-------------------|---------------------|
| Cash flows from operating activities          | \$ <u>933,826</u> | \$ <u>3,370,909</u> |
| Cash flows from investing activities          | -                 | (820,268)           |
| Cash flows from financing activities          | (27,754)          | (918,014)           |
| Total cash flows from discontinued operations | \$ <u>906,072</u> | \$ <u>1,632,627</u> |

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 14 – DISCONTINUED OPERATIONS, (continued):**

*World Wide Exploration*

In September 2010, we ceased our drilling service operations in Mexico and moved all of the serviceable assets in Mexico to the United States for future use. The results of operations for our Mexican subsidiary, World Wide Exploration, have been reported in discontinued operations for all periods presented.

No revenues or expenses of World Wide Exploration are included in income from discontinued operations in the consolidated statement of operations for the year ended September 30, 2012. The following table details selected financial information for World Wide Exploration included in income from discontinued operations in the consolidated statement of operations for the year ended September 30, 2011:

|                                               | <b>2011</b>  |
|-----------------------------------------------|--------------|
| Operating expenses                            | \$ (114,585) |
| Interest income                               | 3            |
| Loss from discontinued operations, net of tax | \$ (114,582) |

Our consolidated balance sheet had no assets held for sale from World Wide Exploration at September 30, 2012. Our consolidated balance sheet had assets held for sale from World Wide Exploration which was comprised of the following items at September 30, 2011:

|                                           | <b>2011</b> |
|-------------------------------------------|-------------|
| Materials and supplies inventory          | \$ 126,686  |
| Prepaid expenses and other current assets | 25,650      |
| Total current assets held for sale        | \$ 152,336  |

No cash flows from discontinued operations at World Wide Exploration are included in our consolidated statement of cash flows for the year ended September 30, 2012. Cash flows from discontinued operations at World Wide Exploration included in our consolidated statement of cash flows for the year ended September 30, 2011 are as follows:

|                                               | <b>2011</b> |
|-----------------------------------------------|-------------|
| Cash flows from operating activities          | \$ (86,480) |
| Cash flows from investing activities          | -           |
| Cash flows from financing activities          | -           |
| Total cash flows from discontinued operations | \$ (86,480) |

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES**  
**(An Exploration Stage Company)**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012**

**NOTE 15 – COMMITMENTS AND CONTINGENCIES:**

*Real Estate Lease Commitments*

We have real estate lease commitments related to our main office in Coeur d’Alene, Idaho, facilities in Butte, Montana, Elko, Nevada and Eureka, Nevada.

Total office and storage rental expense from continuing operations for the years ended September 30, 2012 and 2011 is included in the consolidated statements of operations as follows:

|                                           | <b>2012</b>      | <b>2011</b>      |
|-------------------------------------------|------------------|------------------|
| Mineral exploration expenses              | \$ 29,700        | \$ 14,400        |
| Other general and administrative expenses | 55,226           | 50,520           |
| Total                                     | <u>\$ 84,926</u> | <u>\$ 64,920</u> |

Annual lease obligations until the termination of the leases are as follows:

|                                   |           |
|-----------------------------------|-----------|
| For the year ending September 30, |           |
| 2013                              | \$ 70,700 |
| 2014                              | \$ -      |
| 2015                              | \$ -      |
| 2016                              | \$ -      |
| 2017                              | \$ -      |

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

At the end of the period covered by this Annual Report on Form 10-K, an evaluation was carried out under the supervision of and with the participation of our management, including the Chief Executive Officer, Paul Dirksen (“CEO”) and Chief Financial Officer, Randal Hardy, (“CFO”), of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a – 15(e) and Rule 15d – 15(e) under the Exchange Act). Based on that evaluation the CEO and the CFO have concluded that our disclosure controls and procedures were adequately designed and effective in ensuring that: (i) information required to be disclosed by the Company in reports that it files or submits to the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) material information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for accurate and timely decisions regarding required disclosure.

### **Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company (including its consolidated subsidiaries) and all related information appearing in our Annual Report on Form 10-K. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
2. provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with the authorization of management and/or of our Board of Directors; and
3. provide reasonable assurance regarding the prevention or timely detection of any unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the design and operation of our internal control over financial reporting as of September 30, 2012 based on the criteria in a framework developed by the Company’s management pursuant to and in compliance with the principles and framework of the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, walkthroughs of the operating effectiveness of controls and a conclusion on this evaluation. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of September 30, 2012.

### **Attestation Report of the Registered Public Accounting Firm**

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to Section 404(c) of the Sarbanes-Oxley Act, as amended, which permit us as an issuer that is neither a “large accelerated filer” or an “accelerated filer” to provide only management’s report in this Annual Report on Form 10-K.

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

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)), that occurred during our fourth fiscal quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Reference is made to the information set forth under the captions “Election of Directors”, “Information on the Board of Directors, Executive Officers and Key Employees” and “Corporate Governance” in our definitive proxy statement to be filed with the Securities and Exchange commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

### **ITEM 11. EXECUTIVE COMPENSATION**

Reference is made to the information set forth under the captions “Executive Compensation” in our definitive proxy statement to be filed with the Securities and Exchange commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

Our Code of Business and Ethical Conduct can be found on our internet website located at [www.timberline-resources.com](http://www.timberline-resources.com) under the heading “Corporate”. Any stockholder may request a printed copy of such materials by submitting a written request to our Corporate Secretary. If we amend the Code of Business and Ethical Conduct or grants a waiver, including an implicit waiver, from the Code of Business and Ethical Conduct, we will disclose the information on our internet website. The waiver information will remain on the website for at least twelve months after the initial disclosure of such waiver.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

Reference is made to the information set forth under the captions “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in our definitive proxy statement to be filed with the Securities and Exchange commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Reference is made to the information set forth under the caption “Certain Relationships and Related Transactions” in our definitive proxy statement to be filed with the Securities and Exchange commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Reference is made to the information set forth under the captions “Information of Independent Registered Public Accounting Firm” in our definitive proxy statement to be filed with the Securities and Exchange commission pursuant to Regulation 14A, which information is incorporated by reference to this Annual Report on Form 10-K.

## **PART IV**

### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

#### **Documents Filed as Part of Report**

#### ***Financial Statements***

The following Consolidated Financial Statements of the Corporation are filed as part of this report:

1. Report of Independent Registered Public Accounting Firm dated December 7, 2012.
2. Consolidated Balance Sheets—At September 30, 2012 and 2011.
3. Consolidated Statements of Operations and Comprehensive Income (Loss)—Years ended September 30, 2012 and 2011.
4. Consolidated Statements of Changes in Stockholders’ Equity—Years ended September 30, 2012 and 2011.
5. Consolidated Statements of Cash Flows—Years ended September 30, 2012 and 2011.
6. Notes to Consolidated Financial Statements.

See “Item 8. Financial Statements and Supplementary Data”.

| Exhibit No. | Description of Document                                                                                                                                                                                                                                                                                     |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Certificate of Incorporation of the Registrant (8)                                                                                                                                                                                                                                                          |
| 3.2         | By-Laws of the Registrant (8)                                                                                                                                                                                                                                                                               |
| 4.1         | Specimen of the Common Stock Certificate (1)                                                                                                                                                                                                                                                                |
| 4.2         | Form of Warrant for November 2009 Private Placement (9)                                                                                                                                                                                                                                                     |
| 4.3         | Convertible Note between the Company and Ron and Stacey Guill (10)                                                                                                                                                                                                                                          |
| 4.4         | Term Note between the Company and Small Mine Development, LLC (10)                                                                                                                                                                                                                                          |
| 10.1        | Hecla Agreement//Joint Venture Agreement for Snowstorm, Idaho (1)                                                                                                                                                                                                                                           |
| 10.2        | Snowshoe Mining Co. Lease//Mineral Lease Property at Snowstorm, Idaho (1)                                                                                                                                                                                                                                   |
| 10.3        | Western Goldfields, Inc. Lease//Mineral Lease with Western Goldfields, Inc./Claim at the Snowstorm Project, Idaho (1)                                                                                                                                                                                       |
| 10.4        | P. Dirksen Agreement/Current Consulting Agreement (1)                                                                                                                                                                                                                                                       |
| 10.5        | 2005 Equity Incentive Plan approved at the September 23, 2005 Annual Meeting of Shareholders (1)                                                                                                                                                                                                            |
| 10.6        | Memorandum of Royalty Deed and Agreement between Hecla Mining Co. and the Registrant (2)                                                                                                                                                                                                                    |
| 10.7        | Quitclaim Deed and Assignment between Hecla Mining Co. and the Registrant (3)                                                                                                                                                                                                                               |
| 10.8        | Amended 2005 Equity Incentive Plan approved at the September 22, 2006 Annual Meeting of Shareholders (4)                                                                                                                                                                                                    |
| 10.9        | Employment Agreement with VP Paul Dirksen (5)                                                                                                                                                                                                                                                               |
| 10.10       | Assignment and Assumption Agreement dated July 19, 2007 between the Registrant and Butte Highlands Mining Company (6)                                                                                                                                                                                       |
| 10.11       | Amendment No. 1 to Timberline Resources Corporation's Amended 2005 Equity Incentive Plan (7)                                                                                                                                                                                                                |
| 10.12       | Agreement and Plan of Merger between Timberline Resources Corporation, an Idaho corporation, and Timberline Resources Corporation, a Delaware corporation, date August 22, 2008 (8)                                                                                                                         |
| 10.13       | Pledge Agreement between the Company and Ron and Stacey Guill. (10)                                                                                                                                                                                                                                         |
| 10.14       | Security Agreement between the Company and Ron and Stacey Guill.(10)                                                                                                                                                                                                                                        |
| 10.15       | Credit Agreement between the Company and Small Mine Development, LLC. (10)                                                                                                                                                                                                                                  |
| 10.16       | Pledge Agreement between the Company and Small Mine Development, LLC. (10)                                                                                                                                                                                                                                  |
| 10.17       | Right of First Refusal between the Company and Small Mine Development, LLC. (10)                                                                                                                                                                                                                            |
| 10.18       | Operating Agreement with Highland Mining, LLC, dated July 22, 2009 (Note that parts of this agreement have been redacted pursuant to a Confidential Treatment Request granted by the Commission on February 2, 2011 (14)                                                                                    |
| 10.19       | Amended Employment Agreement of Mr. Paul Dirksen, dated December 29, 2008 (11)                                                                                                                                                                                                                              |
| 10.20       | Amended Employment Agreement of Mr. Randal Hardy dated December 29, 2008 (11)                                                                                                                                                                                                                               |
| 10.21       | Arrangement Agreement between the Company and Staccato Gold dated March 22, 2010 (12)                                                                                                                                                                                                                       |
| 10.22       | Form of Support Agreement between the Company and officers and directors of Staccato Gold (12)                                                                                                                                                                                                              |
| 10.23       | Loan Amendment Agreement between the Company and Small Mine Development, LLC dated June 21, 2010 (13)                                                                                                                                                                                                       |
| 10.24       | Placement Agent Agreement between the Company and Sutter Securities Inc. dated February 16, 2011 (15)                                                                                                                                                                                                       |
| 10.25       | Purchase Agreement between the Company and TDI Holdings, Inc. dated October 25, 2011 (Note that parts of the form of Drilling Services Agreement included as Exhibit "D" to the Purchase Agreement were redacted pursuant to a Confidential Treatment Request filed with the SEC on October 31, 2011). (16) |
| 10.26       | Subordination Agreement between the Company, TDI Holdings, Inc, Timberline Drilling, Inc. and Wells Fargo Bank, N.A., dated November 9, 2011 (17)                                                                                                                                                           |
| 14          | Code of Ethics (2)                                                                                                                                                                                                                                                                                          |
| 21          | <a href="#">List of Subsidiaries</a>                                                                                                                                                                                                                                                                        |
| 23.1        | <a href="#">Consent of Decoria, Maichel &amp; Teague</a>                                                                                                                                                                                                                                                    |
| 31.1        | <a href="#">Certification of Chief Executive Officer</a> pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)                                                                                                                                            |
| 31.2        | <a href="#">Certification of Chief Financial Officer</a> pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)                                                                                                                                            |
| 32.1        | <a href="#">Certification of Chief Executive Officer</a> pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)                                                                                                                                                                         |
| 32.2        | <a href="#">Certification of Chief Financial Officer</a> pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)                                                                                                                                                                         |

(1) Incorporated by reference to the Company's Form 10SB as filed with the Securities Exchange Commission on September 29, 2005.

(2) Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K as filed with the Securities Exchange Commission on February 6, 2006.

(3) Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K as filed with the Securities Exchange Commission on February 6, 2006.

(4) Incorporated by reference Exhibit A to the Company's Schedule DEF14A (Proxy Statement) as filed with the Securities and Exchange Commission on September 8, 2006

(5) Incorporated by reference to the Company's Form 10KSB as filed with the Securities Exchange Commission on January 16, 2007.

(6) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on July 23, 2007.

(7) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on August 26, 2008.

(8) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on August 29, 2008.

(9) Incorporated by reference to the Company's Form 10-K as filed with the Securities Exchange Commission on December 8, 2009.

(10) Incorporated by reference to Ron and Stacey Guill's Schedule 13-D as filed with the Securities and Exchange Commission on December 24, 2008.

(11) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on January 12, 2009.

(12) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on March 29, 2010.

(13) Incorporated by reference to the Company's Form 10-Q as filed with the Securities and Exchange Commission on August 11, 2010.

(14) Incorporated by reference to the Company's Form 10-K as filed with the Securities Exchange Commission on December 20, 2010.

(15) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on February 28, 2011.

(16) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on October 31, 2011.

(17) Incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on November 15, 2011.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized:

### TIMBERLINE RESOURCES CORPORATION

|                                               |                                                                                      |                   |
|-----------------------------------------------|--------------------------------------------------------------------------------------|-------------------|
| <u>/s/ Paul Dircksen</u><br><br>Paul Dircksen | President, Chief Executive Officer, and<br>Chairman<br>(Principal Executive Officer) | December 10, 2012 |
| <u>/s/ Randal Hardy</u><br><br>Randal Hardy   | Chief Financial Officer and Director<br><br>(Principal Financial Officer)            | December 10, 2012 |
| <u>/s/ Craig Crowell</u><br><br>Craig Crowell | Chief Accounting Officer (Principal<br><br>Accounting Officer)                       | December 10, 2012 |

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K was signed by the following persons in the capacities on the dates stated:

|                                                       |                                                                                   |                   |
|-------------------------------------------------------|-----------------------------------------------------------------------------------|-------------------|
| <u>/s/ Paul Dircksen</u><br><br>Paul Dircksen         | President, Chief Executive Officer, and Chairman<br>(Principal Executive Officer) | December 10, 2012 |
| <u>/s/ Randal Hardy</u><br><br>Randal Hardy           | Chief Financial Officer and Director<br><br>(Principal Financial Officer)         | December 10, 2012 |
| <u>/s/ Craig Crowell</u><br><br>Craig Crowell         | Chief Accounting Officer<br><br>(Principal Accounting Officer)                    | December 10, 2012 |
| <u>/s/ Vance Thornsberry</u><br><br>Vance Thornsberry | Director                                                                          | December 10, 2012 |
| <u>/s/ Ron Guill</u><br><br>Ron Guill                 | Director                                                                          | December 10, 2012 |
| <u>/s/ James H. Moore</u><br><br>James H. Moore       | Director                                                                          | December 10, 2012 |
| <u>/s/ Robert Martinez</u><br><br>Robert Martinez     | Director                                                                          | December 10, 2012 |
| <u>/s/ Troy Fierro</u><br><br>Troy Fierro             | Director                                                                          | December 10, 2012 |