

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

FORM 10-Q

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

For the quarterly period ended December 31, 2014

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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

Number of shares of issuer's common stock outstanding at February 10, 2015: 10,000,084

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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES

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TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014 (unaudited)	September 30, 2014 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,095,759	\$ 2,825,320
Prepaid expenses and other current assets	109,832	30,769
Joint venture receivable	1,896	11,576
Current portion of prepaid drilling services	220,000	-
TOTAL CURRENT ASSETS	<u>2,427,487</u>	<u>2,867,665</u>
PROPERTY, MINERAL RIGHTS AND EQUIPMENT	<u>14,449,558</u>	<u>14,431,038</u>
OTHER ASSETS:		
Prepaid drilling services	220,000	440,000
Investment in joint venture	642,450	642,450
Restricted cash	971,854	971,854
Deposits and other assets	4,500	4,500
TOTAL OTHER ASSETS	<u>1,838,804</u>	<u>2,058,804</u>
TOTAL ASSETS	<u>\$ 18,715,849</u>	<u>\$ 19,357,507</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 210,051	\$ 140,697
Accrued expenses	15,000	57,419
Accrued director fees	-	91,000
Accrued payroll, benefits and taxes	35,958	35,958
TOTAL CURRENT LIABILITIES	<u>261,009</u>	<u>325,074</u>
LONG-TERM LIABILITIES:		
Common stock payable	-	80,000
Asset retirement obligation	133,707	132,115
TOTAL LONG-TERM LIABILITIES	<u>133,707</u>	<u>212,115</u>
COMMITMENTS (Note 11)	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.001 par value; 200,000,000 shares authorized, 9,900,084 and 9,816,751 shares issued and outstanding, respectively	9,900	9,817
Additional paid-in capital	63,763,092	63,573,675
Accumulated deficit	(45,451,859)	(44,763,174)
TOTAL STOCKHOLDERS' EQUITY	<u>18,321,133</u>	<u>18,820,318</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 18,715,849</u>	<u>\$ 19,357,507</u>

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three months ended December 31,	
	<u>2014</u>	<u>2013</u>
OPERATING EXPENSES:		
Mineral exploration expenses	\$ 242,320	\$ 163,950
Salaries and benefits	200,447	201,512
Professional fees expense	89,078	57,919
Insurance expense	21,211	22,313
Gain on disposal of equipment	-	(16,565)
Other general and administrative expenses	136,283	79,214
TOTAL OPERATING EXPENSES	<u>689,339</u>	<u>508,343</u>
LOSS FROM OPERATIONS	<u>(689,339)</u>	<u>(508,343)</u>
OTHER INCOME (EXPENSE):		
Foreign exchange gain/(loss)	535	(426)
Interest income, net	119	78
TOTAL OTHER INCOME (EXPENSE)	<u>654</u>	<u>(348)</u>
LOSS BEFORE INCOME TAXES	(688,685)	(508,691)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (688,685)</u>	<u>\$ (508,691)</u>
NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	<u>9,898,273</u>	<u>6,180,628</u>

See accompanying notes to consolidated financial statements.

**TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Three Months Ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (688,685)	\$ (508,691)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,980	5,178
Stock based compensation	109,500	-
Gain on disposal of equipment	-	(16,565)
Accretion of asset retirement obligation	1,592	1,516
Changes in operating assets and liabilities:		
Prepaid drilling services, prepaid expenses and other current assets, deposits and other assets	(79,063)	(2,454)
Joint venture receivable	9,680	19,753
Accounts payable	69,354	(28,993)
Accrued expenses	(133,419)	(33,705)
Accrued payroll, benefits and taxes	-	(1,215)
Net cash used by operating activities	<u>(709,061)</u>	<u>(565,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, mineral rights and equipment	(29,000)	(54,000)
Proceeds from sale of property, mineral rights and equipment	8,500	22,056
Net cash used by investing activities	<u>(20,500)</u>	<u>(31,944)</u>
Net decrease in cash and cash equivalents	(729,561)	(597,120)
CASH AT BEGINNING OF PERIOD	2,825,320	824,919
CASH AT END OF PERIOD	<u>\$ 2,095,759</u>	<u>\$ 227,799</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common stock issued for property, mineral rights and equipment purchase	\$ -	\$ 40,000
Common stock payable for accounts payable	-	60,000
Common stock issued for common stock payable	80,000	-

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

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 2008, we reincorporated into the State of Delaware pursuant to a merger agreement approved by our shareholders.

In 2006, we acquired Kettle Drilling, Inc. and its Mexican subsidiary, World Wide Exploration S.A. de C.V. (“World Wide”). In 2008, Kettle Drilling, Inc. changed its name to Timberline Drilling Incorporated (“Timberline Drilling”). In November 2011, we sold Timberline Drilling and World Wide and became solely a mineral exploration enterprise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. *Basis of Presentation and Going Concern* – The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of our management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2015. All amounts presented are in U.S. dollars. For further information refer to the financial statements and footnotes thereto in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

The consolidated financial statements for the three months ended December 31, 2014 were prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. The Company’s ability to continue as a going concern is dependent upon its ability to receive cash flow from its Butte Highlands Gold Project or to successfully obtain additional financing. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company.

- b. *Reclassifications* – Certain amounts in the prior period financial statements have been reclassified for comparative purposes to conform to current period presentation with no effect on previously reported net income (loss) and accumulated deficit.
- c. *Net Income (Loss) per Share* – Basic earnings per share (“EPS”) is computed as net income (loss) 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, in periods of future income as of December 31, 2014 and 2013, would be as follows:

	<u>2014</u>	<u>2013</u>
Stock options	568,334	332,625
Warrants	25,000	25,000
Total possible dilution	<u>593,334</u>	<u>357,625</u>

At December 31, 2014 and 2013, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive.

- d. *Asset retirement obligation* – We account 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 ARO associated with our exploration program at the Lookout Mountain exploration project.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

- e. *New accounting pronouncements* – In June 2014 the Financial Accounting Standards Board issued Accounting Standard Update No. 2014-10 (“the ASU”). This update changes the requirements for disclosures as it relates to exploration stage entities. The ASU specifies that the ‘inception–to-date’ information is no longer required to be presented in the financial statements of an exploration stage entity. The amendments in the ASU are effective for annual reporting periods beginning after December 15, 2014 and interim periods therein, with early application permitted for any financial statements that have not yet been issued. The Company has elected to apply the amendments as of June 30, 2014.

NOTE 3 – FAIR VALUE MEASUREMENTS:

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

	<u>December 31, 2014</u>	<u>September 30, 2014</u>	<u>Input Hierarchy Level</u>
Assets:			
Cash	\$ 2,095,759	\$ 2,825,320	Level 1
Restricted cash	971,854	971,854	Level 1

NOTE 4 - ACQUISITION OF WOLFPACK GOLD (NEVADA) CORP.:

On August 15, 2014, we completed our acquisition of all of the issued and outstanding common shares of Wolfpack Gold (Nevada) Corp. (“Wolfpack Nevada”) in accordance with the terms of an Arrangement Agreement, dated May 6, 2014, by and between the Company and the parent company of Wolfpack Nevada, Wolfpack Gold Corp. (“Wolfpack”). The acquisition was approved by the stockholders of both Timberline and Wolfpack. Wolfpack Nevada was a subsidiary company of Wolfpack, a publicly held Canadian corporation engaged in the exploration of precious metals properties in Nevada. We acquired Wolfpack Nevada in order to further the exploration and development of mineral properties owned or leased by Wolfpack Nevada, as well as to increase our working capital.

This transaction was accounted for as a business combination. We acquired all of the shares of Wolfpack Nevada in consideration for the issuance of one share of common stock of Timberline for each 0.75 common shares of Wolfpack. Pre-acquisition Timberline shareholders own approximately 64% of our issued and outstanding common stock as of the acquisition date and former Wolfpack shareholders own approximately 36%.

The purchase price of the transaction was \$5,151,847, consisting entirely of the issuance of 3,577,672 shares of our common stock. Of the 3,577,672 shares of common stock issued, 706,407 shares of common stock were issued to Wolfpack in exchange for the cancellation of a \$1,000,000 promissory note of Timberline held by Wolfpack, as well as \$17,226 of accrued and unpaid interest on the promissory note (see Note 8).

We incurred \$256,223 in expenses specifically related to the acquisition, \$236,866 of which is included in professional fees expense, \$1,918 is included in mineral exploration expenses, and \$17,439 is included in other general and administrative expenses in the consolidated statement of operations for the year ended September 30, 2014.

The acquisition of Wolfpack Nevada closed at 9:00 a.m. pacific time on August 15, 2014. The closing price of the Company’s common stock on the NYSE MKT on the day prior to this date was \$1.44 per share (adjusted for the reverse stock split – See Note 9).

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

The purchase price allocation of the acquisition is summarized as follows:

Purchase price:		
Shares issued on acquisition	\$	5,151,847
Cancellation of promissory note and accrued interest		(1,017,226)
	\$	<u>4,134,621</u>
Net assets acquired:		
Cash	\$	3,554,143
Restricted cash		348,616
Property, mineral rights, and equipment, net		231,862
	\$	<u>4,134,621</u>

NOTE 5 – INVESTMENT IN JOINT VENTURE:

In July 2009, we entered into a joint venture operating agreement (the “Agreement”) with Highland Mining, LLC (“Highland”). 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 cost, 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.

Under the Agreement, Highland contributed property and agreed to 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 Operating 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.

At December 31, 2014 and September 30, 2014, we have a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$1,896 and \$11,576, respectively.

NOTE 6 – 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. 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. During the year ended September 30, 2014, we accepted \$150,000 as settlement of the portion of the prepaid drilling services that was due to be paid to the Company in November 2014 (\$220,000).

The following table summarizes activity in the Company’s prepaid drilling services:

	Three months ended		Year ended
	December 31, 2014		September 30, 2014
Beginning balance	\$ 440,000	\$	660,000
Cash received in lieu of drilling services	-		(150,000)
Loss on settlement of prepaid drilling services	-		(70,000)
Less current portion	(220,000)		-
Ending balance	<u>\$ 220,000</u>	<u>\$</u>	<u>440,000</u>

NOTE 7 – RELATED PARTY TRANSACTIONS:

Director fees

The Company has accrued nil and \$91,000 in director fees as of December 31, 2014 and September 30, 2014, respectively.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

Daycon Minerals

We own approximately 5% and 5% of the issued and outstanding stock of Daycon Minerals (“Daycon”) as of December 31, 2014 and September 30, 2014, respectively. In addition, our former President and CEO, Paul Dircksen, is a member of the board of directors of Daycon as of December 31, 2014. At September 30, 2013 we evaluated the fair value of our investment in Daycon and determined that this asset was impaired. We determined that the fair value measurement of our investment in Daycon fell under Level 3 (no significant observable inputs) of the fair value hierarchy. Given the adverse market conditions for mineral exploration companies and our doubt about Daycon’s ability to continue as a going concern, we concluded that the fair value of our investment in Daycon was zero. As a result, we recognized a \$450,000 impairment of long term investments in our consolidated statement of operations for the year ended September 30, 2013.

NOTE 8 – NOTE PAYABLE:

On March 14, 2014, the Company entered into a promissory note (the “Note”) and deed of trust, security agreement, assignment of leases and rents and fixture filing to secure promissory note (the “Deed of Trust”) with Wolfpack. The Company and Wolfpack entered into the Note and the Deed of Trust in connection with a proposed business combination (the “Proposed Transaction”) that was the subject of a letter of intent between the parties dated effective March 11, 2014 and was completed on August 15, 2014 (see Note 4).

Pursuant to the Note, the Company agreed to repay Wolfpack the unpaid principal amount of advances made under the Note up to a maximum principal amount of \$1,000,000, together with accrued interest thereon. The amount drawn on the Note bore interest at 5% during the first six months of the loan and 10% thereafter until repaid. Interest was payable in arrears on the date that the Note was prepaid, in proportion to the principal amount being prepaid, or on the date that the Note was due and payable. The Note became payable five business days after the Proposed Transaction closed. The outstanding principal amount of \$1,000,000, together with accrued interest of \$17,226, was paid to Wolfpack with the issuance of 706,407 shares of our common stock on August 15, 2014.

NOTE 9 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

One-for-twelve Reverse Stock Split

Subsequent to September 30, 2014, our board of directors and stockholders approved a one-for-twelve reverse stock split of the Company’s common stock. After the reverse stock split, effective October 31, 2014, each holder of record held one share of common stock for every 12 shares held immediately prior to the effective date. As a result of the reverse stock split, the number of shares underlying outstanding stock options and warrants and the related exercise prices were adjusted to reflect the change in the share price and outstanding shares on the date of the reverse stock split. The effect of fractional shares was not material.

Following the effective date of the reverse stock split, the par value of the common stock remained at \$0.001 per share. As a result, we have reduced the common stock in the consolidated balance sheets and statement of changes in stockholders’ equity included herein on a retroactive basis for all periods presented, with a corresponding increase to additional paid-in capital. All share and per-share amounts and related disclosures have been retroactively adjusted for all periods presented to reflect the one-for-twelve reverse stock split.

Increase in Authorized Shares

During the year ended September 30, 2014, our board of directors and stockholders approved an increase in the number of authorized shares of common stock from 100,000,000 shares, par value \$0.001, to 200,000,000 shares of common stock, par value \$0.001.

Stock Issued for Mineral Rights, Property and Equipment

During the year ended September 30, 2014, pursuant to a vendor agreement related to the provision of metallurgical testing services, we issued 53,922 restricted common shares with a value of \$110,000 based upon the closing price of our shares of common stock on the date of issuance as quoted on the NYSE MKT.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

During the year ended September 30, 2014, pursuant to an amended mineral property lease and option agreement for mineral claims, we issued 16,667 restricted common shares with a value of \$40,000 based upon the closing price of our shares of common stock on the date of issuance as quoted on the NYSE MKT.

On October 3, 2014, pursuant to a mineral property lease and option agreement for mineral claims, we issued 83,334 restricted common shares with a value of \$80,000 based upon the closing price of our shares of common stock on the date of issuance as quoted on the NYSE MKT.

Stock Issued for Repayment of Note Payable

On March 14, 2014, we entered into a promissory note (the “Note”) and deed of trust, security agreement, assignment of leases and rents and fixture filing to secure promissory note (the “Deed of Trust”) with Wolfpack (see Notes 4 and 8). The outstanding principal amount of \$1,000,000, together with accrued interest of \$17,226, was paid to Wolfpack with the issuance of 706,407 shares of our common stock on August 15, 2014.

Warrants

We issued 25,000 warrants during the year ended September 30, 2013 in connection with our public offerings. 12,500 of the warrants are exercisable on a cashless basis, at the holders’ option, for a two-year term commencing December 26, 2013. The remaining 12,500 warrants are exercisable on a cashless basis, at the holders’ option, for a two-year term commencing September 10, 2014. No warrants were issued during the year ended September 30, 2014, and no warrants were exercised or expired during the years ended September 30, 2014 or 2013.

Preferred Stock

We are authorized to issue up to 10,000,000 shares of preferred stock, \$0.01 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 10 – STOCK OPTIONS:

We have established the Amended 2005 Equity Incentive Plan (as amended by our shareholders on May 28, 2010) to authorize the granting of up to 833,334 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 market value of our stock at the date of grant.

During the three months ended December 31, 2014, 365,000 options were granted, with a vesting date of January 1, 2015. No option awards were granted during the three months ended December 31, 2013, and no option awards vested under the plan during the period. Total compensation cost of options is generally recognized from the grant date through the vesting date. Total compensation cost of options for employees was \$55,500 and nil for the three months ended December 31, 2014 and 2013, respectively. These costs are classified under salaries and benefits expense. Total compensation cost of options for directors was \$54,000 and nil for the three months ended December 31, 2014 and 2013, respectively. These costs are classified as other general and administrative expenses.

The fair value of the option awards was estimated to be \$109,500 on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table.

	Three months ended December 31, 2014
Expected volatility	100.9%
Stock price on date of grant	\$0.48
Expected dividends	-
Expected term (in years)	3
Risk-free rate	1.06%
Expected forfeiture rate	0%

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014

The following is a summary of our options issued under the Amended 2005 Equity Incentive Plan:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at September 30, 2014	203,334	\$ 9.09
Granted	365,000	0.48
Exercised	-	-
Expired	-	-
Outstanding at December 31, 2014	<u>568,334</u>	<u>\$ 3.56</u>
Exercisable at December 31, 2014	<u>203,334</u>	<u>\$ 9.09</u>
Weighted average fair value of options granted during the year ended December 31, 2014		<u>\$ 0.30</u>
Unrecognized compensation expense related to options at December 31, 2014		<u>\$ -</u>
Average remaining contractual term of options outstanding and exercisable at December 31, 2014 (years)		
Outstanding		3.69
Exercisable		<u>1.42</u>

The aggregate of options exercisable as of December 31, 2014 had no intrinsic value based on the closing price of \$0.59 per share of our common stock on December 31, 2014.

NOTE 11 – COMMITMENTS:

Real Estate Lease Commitments

The Company has real estate lease commitments related to its main office in Coeur d’Alene, Idaho and a facility in Eureka, Nevada.

Total office lease expense from continuing operations is included in the consolidated statements of operations as follows:

	Three months ended December 31,	
	<u>2014</u>	<u>2013</u>
Mineral exploration expenses	\$ 3,900	\$ 3,900
Other general and administrative expenses	10,500	12,000
Total	<u>\$ 14,400</u>	<u>\$ 15,900</u>

NOTE 12 – SUBSEQUENT EVENTS

On January 14, 2015, 34,189 stock options were awarded, with a vesting date of January 14, 2015. The fair value of the option awards was estimated to be \$16,753 on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table.

	<u>January 14, 2015</u>
Expected volatility	110.1%
Weighted-average volatility	110.1%
Expected dividends	-
Expected term (in years)	3
Risk-free rate	0.83%
Expected forfeiture rate	0%

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes which appear elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

This Quarterly Report on Form 10-Q and the exhibits attached hereto contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concern our anticipated results and developments in our operations in future periods, planned exploration and development of our properties, plans related to our 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;
- planned production of technical reports and economic assessments on our properties;
- plans and anticipated timing for obtaining permits and licenses for our properties;
- expected future financing and its anticipated outcome;
- plans and anticipated timing regarding production dates;
- anticipated gold prices;
- 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 limited operating history;
- risks related to our ability to continue as a going concern;
- risks related to our history of losses and our expectation of continued losses;
- risks related to our properties being in the exploration or, if warranted, development stage;
- risks related to our bringing our projects into production;
- risks related to 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 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 proposed acquisition of Wolfpack Gold Corp.;
- risks related to our loan and deed of trust entered into with Wolfpack Gold Corp.;
- 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” in our annual report on Form 10-K for the year ended September 30, 2014, filed with the Securities and Exchange Commission (the “SEC”) on December 23, 2014. 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 otherwise required by law.

We qualify all the forward-looking statements contained in this Quarterly Report on Form 10-Q by the foregoing cautionary statements.

Corporate Background and History

We became an exploration-stage company 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 our acquisition of a drilling services company and the acquisition of the Butte Highlands Gold Project, we diversified our business plan to include drilling services and an exploration property with the potential to develop an underground mine with possible future gold production. Prior to the purchase of Timberline Drilling (formerly known as Kettle Drilling), we had no reported revenues and only had accumulated losses. In June 2010, we acquired Staccato Gold Resources Ltd. (“Staccato”), a Canadian-based resource company listed on the TSX Venture Exchange 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 South Eureka Property, which included their flagship gold exploration project, the Lookout Mountain Project (“Lookout Mountain”), and several other projects at various stages of exploration in the Battle Mountain/Eureka gold trend in Nevada, along with Staccato’s wholly owned U.S. subsidiary, BH Minerals USA, Inc. 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. The sale of Timberline Drilling was completed in November 2011 for a total value of approximately \$15 million and enabled the Company to focus exclusively on its core business of gold exploration and development.

Corporate Overview

Our business is mineral exploration, with a focus on district-scale gold projects such as our Eureka Project in Nevada, as well as our 50% carried-to-production interest in the Butte Highlands joint venture, which is currently progressing under the terms of our 50/50 joint venture agreement with Highland and targeted to begin gold production in 2015, subject to receipt of all required permits and a positive production decision by the joint venture.

Recent Events

On August 15, 2014, we completed our acquisition of all of the issued and outstanding common shares of Wolfpack Gold (Nevada) Corp. (“Wolfpack Nevada”) in accordance with the terms of an Arrangement Agreement, dated May 6, 2014, by and between the Company and the parent company of Wolfpack Nevada, Wolfpack Gold Corp. (“Wolfpack”). The acquisition was approved by the stockholders of both Timberline and Wolfpack. Wolfpack Nevada was a subsidiary company of Wolfpack, a publicly held Canadian corporation engaged in the exploration of precious metals properties in Nevada. We acquired Wolfpack Nevada in order to further the exploration and development of mineral properties owned or leased by Wolfpack Nevada, as well as to increase our working capital. (See Note 4 to the Consolidated Financial Statements for further details of the transaction.)

Subsequent to September 30, 2014, our board of directors and stockholders approved a one-for-twelve reverse stock split of the Company's common stock. After the reverse stock split, effective October 31, 2014, each holder of record held one share of common stock for every 12 shares held immediately prior to the effective date. As a result of the reverse stock split, the number of shares underlying outstanding stock options and warrants and the related exercise prices were adjusted to reflect the change in the share price and outstanding shares on the date of the reverse stock split. The effect of fractional shares was not material.

Mineral Exploration

Eureka Project, Nevada

The Eureka Project, which includes Lookout Mountain, comprises an area of approximately 15,000 acres, or more than 23 square miles. The Eureka Project is located within the southern portion of Nevada's Battle Mountain-Eureka gold trend and includes three structurally controlled zones of gold mineralization, each approximately 3- 4 miles in strike length, all zones of which are open and will require additional in-fill and step-out drilling. The project has an extensive exploration, drilling, and gold production history by a number of companies since 1975, including Idaho Mining Corp., Norse-Windfall Mining, Amselco, Echo Bay Mines, Newmont and Barrick Gold. A total of 533 holes, totaling 267,000 feet, were drilled on the property prior to its acquisition by Timberline in 2010. Gold mineralization tested to date is typical sediment-hosted "Carlin-type" gold mineralization, most of which may be amenable to low cost, heap leach processing.

In 2010-2011 we completed an exploration program that culminated in the release of a Canadian National Instrument 43-101 ("NI 43-101") compliant technical report, entitled, *Technical Report on the Lookout Mountain Project, Eureka County, Nevada, USA*, dated May 2, 2011 (the "Technical Report"). 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 Lookout Mountain.

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 SEC 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 the Technical Report in this Quarterly Report on Form 10-Q for informational purposes only and the Technical Report is not incorporated herein by reference. Investors are cautioned not to assume that all or any part of a mineral deposit 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.

The NI 43-101 compliant Technical Report was modeled and estimated by MDA by evaluating available drill data statistically, utilizing geologic interpretations provided by Timberline to interpret gold mineral domains on cross sections spaced at 50- to 100-foot intervals across the extent of the Lookout Mountain mineralization, rectifying 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.

In 2012, we released updated exploration data for Lookout Mountain and filed an updated NI 43-101 Technical Report. As a result of the most recently completed exploration program, we have successfully extended the mineralized zone at Lookout Mountain 600 feet to the south of the resource boundary defined in the 2011 Technical Report, and have expanded mineralization along the west margin of the deposit. Results from Lookout Mountain, and from the South Adit area, significantly increased the currently reported mineralization at Lookout Mountain. In early 2013, we completed our 2012 exploration program at Lookout Mountain, including 26,140 feet total of infill-drilling. This program focused on resource expansion, metallurgical, geotechnical, and permitting studies.

Assay results from drilling were incorporated into an updated NI 43-101 Technical Report which was completed in early 2013. Drilling also provided data for on-going metallurgical studies directed at characterization of gold mineralization recovery, and for initial assessment of pit-slope stabilities. Permitting-related activities were advanced through completion of quarterly monitoring, and installation of three monitoring wells. Initial site facilities (heap leach pads, mine rock storage, access roads) have also been prepared in advance of the anticipated PEA.

In 2013, we continued geochemical waste rock environmental characterization, completed independent metallurgical leach testing, continued water quality monitoring and defined hydrologic work plans. We also continued the baseline environmental data collection and analysis at Lookout Mountain. In addition, we reduced costs by consolidating our Elko field office into our Eureka facility.

During most of 2014, the Company limited exploration related activities to low cost field surveys including soil and rock sampling, drill site reclamation, site archeological surveys, and geologic mapping. The mapping led to identification of new targets on each of the three structural zones of gold mineralization. In December, 2014 drilling resumed at Eureka with an initial test of one new target completed before year-end. Reverse circulation (RC) drill hole BHSE-171 identified a new zone of gold mineralization and intersected 25 feet of 0.144 ounces of gold per ton (opt) (7.62 meters (m) of 4.93 grams of gold per tonne (g/t)) within a longer 65 foot interval assaying 0.094 opt (19.82 m of 3.22 g/t) in the Lookout Mountain area. This hole was offset 140 feet from BHSE-152 (drilled in 2012) which first encountered the new zone in 2012 but was not completed due to drilling difficulties.

Follow-up core drilling was initiated in January 2015 at Lookout Mountain to further evaluate the new zone. In addition, drilling at the Windfall target is expected to be completed in the first quarter of 2015 in preparation for development of a resource estimate anticipated in mid-2015. Of our previously announced budget of approximately \$2 million for 2015 exploration on the Eureka Project, including Lookout Mountain and Windfall, we have spent approximately \$0.2 million to date and anticipate expenditures of approximately \$1.0 - \$1.5 million through the end of the fiscal year, subject to exploration results, funding, and project prioritization.

There are no proven and probable reserves as defined under Guide 7 at the Eureka Project and our activities there remain exploratory in nature.

Butte Highlands Project, Montana

In conjunction with our joint venture partner, Highland, we continue to advance the Butte Highlands Project toward an expected commencement of mineral extraction. With the receipt of final assays from the 50,000-foot underground exploration drill program that was completed in the year ended September 30, 2011, Highland completed an initial mine plan and obtained necessary data for the submission of the Hard Rock Operating Permit (“HRO Permit”) application. The mine plan anticipates mineral extraction of approximately 400 tons per day during the first four years of operation, with mineralized material to be direct shipped to a nearby mill.

We submitted the application for our HRO Permit to the Montana Department of Environmental Quality (“MDEQ”) in May 2010. As a result of hydrological studies performed since that time, it has become evident that there will be a need to pump and discharge more water from the mineralized area than was initially expected. As a result, the project requires an additional water discharge permit (“MPDES Permit”) to be issued by the State of Montana and the construction of additional water treatment facilities. An application for the MPDES Permit was submitted to the MDEQ on March 30, 2012, with amendments submitted in June 2012. In July, 2012 we received a notice of completeness for the MPDES Permit application from the MDEQ, and during the quarter ended June 30, 2013 we received the MPDES Permit, to take effect on August 1, 2013.

In May 2013, we released a Canadian National Instrument 43-101 (“NI 43-101”) compliant technical report, entitled, *Technical Report on the Butte Highlands Gold Project, Silver Bow County, Montana, USA*, dated May 10, 2013 (the “Butte Technical Report”). The Butte Technical Report was prepared by MDA, of Reno, Nevada under the supervision of Michael M. Gustin, Senior Geologist, who is a qualified person under NI 43-101.

Cautionary Note to U.S. Investors: The Butte Technical Report uses the terms “mineral resource,” “measured mineral resource,” “indicated mineral resource”, “inferred mineral resource” and “historic 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 SEC 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 the Butte Technical Report in this Quarterly Report on Form 10-Q for informational purposes only and the Butte Technical Report is not incorporated herein by reference. Investors are cautioned not to assume that all or any part of a mineral deposit 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.

A significant project milestone was achieved with the receipt of a notice of completeness and draft HRO Permit from the MDEQ on December 7, 2012. In January, 2013, with environmental baseline studies substantially complete, the MDEQ initiated completion of an Environmental Impact Statement (“EIS”) for the project upon which the final HRO Permit was scheduled to be issued late in the third quarter of 2013. A draft EIS was issued on October 11, 2013 and, after receipt of public comments thereupon, the MDEQ spent most of 2014 preparing the final EIS document which was published on December 18, 2014. The MDEQ has subsequently published, on January 26, 2014, a Record of Decision (“ROD”) authorizing Butte Highlands Joint Venture (“BHJV”) to construct and operate the proposed underground gold mine.

During 2014, the United States Forest Service (“USFS”) completed specialist studies in support of a proposed Plan of Operations to allow the usage of USFS roads for haulage of mineralized material from the mine site. The USFS initiated preparation of an Environmental Assessment (“EA”) in the second quarter of 2013. The draft EA was released and followed with a public comment period in the first quarter of 2014. During the fourth quarter of 2014, the USFS continued preparing a Final EA which considers the public comments and is coordinating plans with Butte-Silver Bow County and BHJV for long-term road maintenance plans. The USFS also issued a revised schedule with release of a draft decision for public comment scheduled for March 18, 2015 and with a Final decision to come on May 11, 2015.

In the first quarter of 2014, a “Nationwide 404” Permit was granted by the US Army Corp of Engineers (ACOE), as was a Conservation District 310 Permit (pending final engineering design submittals), to BHJV to allow needed road improvements across stream crossings and associated minor wetlands.

With receipt of the ROD for the project and a revised schedule from the USFS, pending favorable gold price, we anticipate that BHJV will post the required bond and re-initiate final pre-development planning and work in the second quarter of 2015. BHJV has already initiated planning for implementation of mitigation measures identified by the MDEQ in the ROD. Upgrades to the road are anticipated to begin shortly after receipt of the final decision from the USFS on the proposed Plan of Operations. Final approval by the USFS for road use is the remaining step to permit the project for full-scale mining. Once approved, and subject to a positive production decision by the joint venture, road improvements and final mine construction are expected to be completed in the second half of 2015.

Timberline's joint venture operating agreement at the Butte Highlands Project calls for Timberline to retain a 50-percent project interest while being carried to production by Highland. Once in production, as defined in the joint venture agreement, Timberline is to receive 20-percent of project cash flow until Highland recovers its initial capital expenditures, at which time Timberline will receive 50-percent of cash flow.

A feasibility study has not been completed on the Butte Highlands project, and there are no proven and probable reserves at the property under Guide 7. Our activities there remain exploratory in nature and there is no certainty the proposed operations will be economically viable.

Summary

We believe the global economic environment and monetary climate continue to favor a solid and relatively steady gold price for the foreseeable future, despite recent volatility in prices. Volatility is to be expected, however our expectation is that we can continue to advance our business model in spite of the current gold price and market volatility.

As a company, we are focused on advancing exploration programs at Eureka, and exploring and identifying mineral occurrences on other properties acquired in Nevada as well as advancing the Butte Highlands Project toward expected gold extraction in 2015, subject to receipt of all required permits and a positive production decision by the joint venture as discussed above. In addition, we continue to evaluate a number of mineral properties we acquired through the Wolfpack acquisition, and we will continue to evaluate new mineral exploration opportunities that fit with our business model. We have evaluated a number of projects and opportunities during the past year and will continue to do so. We believe that management and our board of directors have the knowledge to appropriately evaluate opportunities – either organically or through mergers and acquisitions – and we will continue to do so.

Results of Operations for the three months ended December 31, 2014 and 2013

Consolidated Results

(\$US)	Three Months Ended December 31,	
	2014	2013
Exploration expenses :		
Eureka/Lookout Mountain	\$ 157,633	\$ 113,713
Other exploration properties	84,687	50,237
Total exploration expenditures	242,320	163,950
Non-cash expenses:		
Stock option and stock issuance expense	109,500	-
Depreciation, amortization and accretion	3,572	6,694
Total non-cash expenses	113,072	6,694
Professional fees expense	89,078	57,919
Salaries and benefits	144,947	201,512
Interest and other income	(654)	(16,217)
Other general and administrative expenses	99,922	94,833
Net loss	\$ (688,685)	\$ (508,691)

Our consolidated net loss for the three months ended December 31, 2014 was \$688,685 compared to a consolidated net loss of \$508,691 for the three months ended December 31, 2013. The year over year difference is primarily attributed to increased non-cash stock option expense, increased exploration expenditures, and increased professional fees, which were partially offset by a reduction in salaries and benefits. Exploration expenditures increased due to drilling and permitting activities, including a required archeological survey, in the three months ended December 31, 2014, with no drilling being done in the corresponding period in 2013. Drilling, and related activities, are expected to continue in 2015, subject to exploration results and adequate funding. Professional fees increased in 2014 due primarily to legal fees related to property and royalty agreements, while the decrease in salaries and benefits was due to a reduced number of employees in 2014. The decrease in interest and other income in 2014 was due to income related to the disposition of vehicles in 2013. We expect to prudently continue our exploration activity in future periods as funding allows.

Financial Condition and Liquidity

At December 31, 2014, we had assets of \$18,715,849, consisting of cash in the amount of \$2,095,759; property, mineral rights and equipment, net of depreciation of \$14,449,558, and other assets in the amount of \$2,170,532.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of our assets and the settlement of our liabilities in the normal course of our operations. 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 investors and have limited access to capital and credit for many companies. These disruptions, 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 in order to continue as a going concern.

At December 31, 2014, we had working capital of \$2,166,478. As of the date of this report, we have no outstanding debt and a cash balance of approximately \$1.7 million. Management expects to manage the amount of working capital and expenditures through prudent, results-driven exploration, reductions in professional fees and other general and administrative expenditures, and potentially obtaining financing through equity investments, joint ventures, or other types of agreements or strategic arrangements. We plan, as funding allows, 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. We currently have budgeted exploration expenditures of approximately \$1.0 - \$1.5 million and general corporate and administrative expenses of approximately \$0.8 million for the remainder of the 2015 fiscal year. We anticipate that our current working capital may not be sufficient to meet our currently planned exploration costs and general corporate and administrative expenses through the end of fiscal 2015 and may require additional funding and/or reductions in budgeted exploration and administrative expenditures.

We may not be able to execute the full extent of our operating plans in fiscal year 2015 with our current cash balances. Therefore, we anticipate the need to engage in financing transactions which may include equity financing, sales of non-core assets, credit facilities or debenture issuances, or other strategic arrangements. With our current cash balance, our expected ability to complete financing transactions, and our ability to curtail discretionary exploration expenditures as needed, we believe that we have sufficient working capital to meet our ongoing, non-discretionary operating expenses for the next 12 months and maintain our primary mineral properties. Butte Highlands continues to be carried to production (as defined in the joint venture agreement). If and when extraction of mineralized material begins, we should realize some income from our 20% share of project cash flows, with potential increased income after initial capital expenditures are repaid and our share of project cash flows increases to 50%. While this prospective income will serve to fund some of our ongoing exploration expenditures, we do not anticipate that it will initially be sufficient to fund all such activities and that additional financing will still be necessary to fund our other exploration activities, or those activities will have to be curtailed. Given current market conditions, we cannot provide assurance that necessary financing will be available to us on acceptable terms or at all.

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 the financial statements contained in this Quarterly Report for a summary of the significant accounting policies used in the presentation of our financial statements. 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 decline in the value assigned to such 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 our 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 our 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 expect to incur at our Lookout Mountain Project. 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Conclusions of Management Regarding Effectiveness of Disclosure Controls and Procedures

At the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer, Paul Dirksen ("CEO") and Chief Financial Officer, Randal Hardy, ("CFO"), of the effectiveness of the design and operations of the Company's 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 as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective in ensuring that: (i) information required to be disclosed by the Company in reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (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.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not aware of any material pending or threatened litigation, or of any proceedings known to be contemplated by governmental authorities which are, or would be, likely to have a material adverse effect upon us or our operations, taken as a whole. No director, officer or affiliate of Timberline and no owner of record or beneficial owner of more than 5% 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 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2014 which was filed with the SEC on December 23, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

All unregistered sales of equity securities have previously been disclosed on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

We consider health, safety and environmental stewardship to be a core value for the Company.

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, 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 with respect to mining operations and properties in the United States that are 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"). During the quarter ended December 31, 2014, our U.S. exploration properties were not subject to regulation by the MSHA under the Mine Act.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 3.1** Certificate of Incorporation of the Registrant as amended through October 31, 2014, incorporated by reference to the Company's Form 10-K as filed with the Securities and Exchange Commission on December 23, 2014
- 3.2** By-Laws of the Registrant, incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on August 29, 2008.
- 4.1** Specimen of the Common Stock Certificate, incorporated by reference to the Company's Form 10SB as filed with the Securities Exchange Commission on September 29, 2005
- 4.2** Form of Warrant Agreement between the Company and Aegis Capital Corp., incorporated by reference to the Company's Form 10-K filed with the Securities and Exchange Commission on December 18, 2013.
- 10.1** Employment Term Sheet dated December 17, 2014, between Timberline Resources Corp. and Kiran Patankar, incorporated by reference to the Company's Form 8-K as filed with the Securities and Exchange Commission on December 19, 2014
- 31.1*** Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 31.2*** Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 32.1*** Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
- 32.2*** Certification of Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS*** XBRL Instance Document
- 101.SCH*** XBRL Taxonomy Extension Schema Document
- 101.CAL*** XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF*** XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB*** XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE*** XBRL Taxonomy Extension Presentation Linkbase Document

* - Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIMBERLINE RESOURCES CORPORATION

By: /s/ Kiran Patankar

Kiran Patankar
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 10, 2015

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: February 10, 2015

CERTIFICATION

I, Kiran Patankar, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Timberline Resources Corporation,
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2015

By: /s/ Kiran Patankar

Kiran Patankar
President & Chief Executive Officer
Principal Executive Officer

CERTIFICATION

I, Randal Hardy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Timberline Resources Corporation,
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2015

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
Principal Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Timberline Resources Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kiran Patankar, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2015

By: /s/ Kiran Patankar

Kiran Patankar
President & Chief Executive Officer
Principal Executive Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Timberline Resources Corporation (the "Company") on Form 10-Q for the quarter ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randal Hardy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 10, 2015

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
Principal Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.