

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

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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 May 9, 2013: 68,121,879

INDEX

	Page
PART I — FINANCIAL INFORMATION	3
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)	3
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.	14
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	19
ITEM 4. CONTROLS AND PROCEDURES	20
PART II — OTHER INFORMATION	20
ITEM 1. LEGAL PROCEEDINGS.	20
ITEM 1A. RISK FACTORS	20
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.	20
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.	20
ITEM 4. MINE SAFETY DISCLOSURES	20
ITEM 5. OTHER INFORMATION.	21
ITEM 6. EXHIBITS.	21
SIGNATURES	21

PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)

Contents

	<i>Page</i>
<i>FINANCIAL STATEMENTS:</i>	
<i>Consolidated balance sheets</i>	4
<i>Consolidated statements of operations and comprehensive income (loss)</i>	5
<i>Consolidated statements of cash flows</i>	6
<i>Notes to consolidated financial statements</i>	7 - 13

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

	March 31, 2013 (unaudited)	September 30, 2012 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 642,998	\$ 1,034,080
Prepaid expenses and other current assets	85,937	67,660
Joint venture receivable	19,840	773,028
Note receivable	750,000	1,350,000
Current portion of prepaid drilling services	227,116	-
TOTAL CURRENT ASSETS	<u>1,725,891</u>	<u>3,224,768</u>
PROPERTY, MINERAL RIGHTS AND EQUIPMENT	<u>13,668,307</u>	<u>13,636,073</u>
OTHER ASSETS:		
Prepaid drilling services, net of current portion	660,000	887,116
Investment in joint venture	642,450	642,450
Restricted cash	639,422	639,422
Deposits and other assets	329,500	179,500
TOTAL OTHER ASSETS	<u>2,271,372</u>	<u>2,348,488</u>
TOTAL ASSETS	<u>\$ 17,665,570</u>	<u>\$ 19,209,329</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 303,158	\$ 929,229
Accrued expenses	126,042	111,667
Accrued payroll, benefits and taxes	47,866	49,001
TOTAL CURRENT LIABILITIES	<u>477,066</u>	<u>1,089,897</u>
LONG-TERM LIABILITIES:		
Asset retirement obligation	122,791	119,831
TOTAL LONG-TERM LIABILITIES	<u>122,791</u>	<u>119,831</u>
COMMITMENTS	-	-
STOCKHOLDERS' EQUITY:		
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, 68,121,879 and 62,271,879 shares issued and outstanding, respectively	68,122	62,272
Additional paid-in capital	57,112,100	56,198,035
Accumulated deficit	(31,678,445)	(31,678,445)
Accumulated deficit during the exploration stage	(8,436,064)	(6,582,261)
TOTAL STOCKHOLDERS' EQUITY	<u>17,065,713</u>	<u>17,999,601</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 17,665,570</u>	<u>\$ 19,209,329</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,		From Inception of Exploration Stage November 9, 2011 through March 31, 2013
	2013	2012	2013	2012	2013
OPERATING EXPENSES:					
Mineral exploration expenses	\$ 340,515	\$ 453,640	\$ 1,146,706	\$ 1,509,200	\$ 5,688,418
Gain on lease of mineral rights	(125,000)	-	(125,000)	-	(200,000)
Salaries and benefits	201,093	367,758	402,192	533,950	1,384,307
Professional fees expense	34,305	39,559	108,759	188,828	346,741
Insurance expense	28,069	28,305	53,382	51,364	148,973
Other general and administrative expenses	201,775	246,727	329,208	470,398	1,177,920
TOTAL OPERATING EXPENSES	<u>680,757</u>	<u>1,135,988</u>	<u>1,915,247</u>	<u>2,753,739</u>	<u>8,546,359</u>
LOSS FROM OPERATIONS	<u>(680,757)</u>	<u>(1,135,988)</u>	<u>(1,915,247)</u>	<u>(2,753,739)</u>	<u>(8,546,359)</u>
OTHER INCOME (EXPENSE):					
Foreign exchange gain (loss)	(614)	110	(1,285)	226	(1,030)
Interest income	28,557	36,327	62,729	57,797	190,933
Related party interest expense	-	-	-	(71,274)	(29,608)
Impairment of available-for-sale securities	-	-	-	-	(50,000)
TOTAL OTHER INCOME (EXPENSE)	<u>27,943</u>	<u>36,437</u>	<u>61,444</u>	<u>(13,251)</u>	<u>110,295</u>
LOSS BEFORE INCOME TAXES	<u>(652,814)</u>	<u>(1,099,551)</u>	<u>(1,853,803)</u>	<u>(2,766,990)</u>	<u>(8,436,064)</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LOSS FROM CONTINUING OPERATIONS	<u>(652,814)</u>	<u>(1,099,551)</u>	<u>(1,853,803)</u>	<u>(2,766,990)</u>	<u>(8,436,064)</u>
DISCONTINUED OPERATIONS:					
Income, net of taxes	-	-	-	484,642	-
Gain on disposal	-	-	-	1,636,938	-
TOTAL INCOME FROM DISCONTINUED OPERATIONS	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,121,580</u>	<u>-</u>
NET LOSS	<u>(652,814)</u>	<u>(1,099,551)</u>	<u>(1,853,803)</u>	<u>(645,410)</u>	<u>(8,436,064)</u>
OTHER COMPREHENSIVE INCOME (LOSS):					
Unrealized gain on available-for-sale equity securities	-	-	-	59,600	-
Reclassification of net loss on available-for-sale equity securities included in net loss	-	-	-	-	(486,400)
COMPREHENSIVE LOSS	<u>\$ (652,814)</u>	<u>\$ (1,099,551)</u>	<u>\$ (1,853,803)</u>	<u>\$ (585,810)</u>	<u>\$ (8,922,464)</u>
NET INCOME (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:					
CONTINUING OPERATIONS	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)	
DISCONTINUED OPERATIONS	-	-	-	0.04	
NET LOSS PER SHARE	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED					
	<u>68,104,101</u>	<u>61,450,613</u>	<u>65,313,912</u>	<u>61,319,684</u>	

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31,		From Inception of Exploration Stage November 9, 2011 Through March 31, 2013
	2013	2012	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (1,853,803)	\$ (645,410)	\$ (8,436,064)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	15,266	167,655	66,285
Stock based compensation	10,000	71,000	338,000
Accretion of asset retirement obligation	2,960	2,819	8,666
Gain on lease of mineral rights	(125,000)	-	(200,000)
Stock issued for mineral exploration expenses	21,500	-	21,500
Amortization of deferred financing cost with related party	-	15,909	15,909
Impairment of available-for-sale equity securities	-	-	50,000
Gain on sale of discontinued operations	-	(1,636,938)	-
Changes in assets and liabilities:			
Prepaid drilling services, prepaid expenses and other current assets, deposits and other assets	(18,277)	513,056	446,577
Joint venture receivable	753,188	75,578	20,570
Accounts payable	(626,071)	(1,829,209)	(97,788)
Accrued expenses	14,375	(296,371)	126,042
Accrued payroll, benefits and taxes	(1,135)	(652,314)	47,866
Receivable from sale of discontinued operations	-	-	1,657,625
Accounts receivable	-	1,837,928	-
Materials and supplies inventory	-	1,577,703	-
Deferred revenue	-	(78,970)	-
Accrued interest on convertible note payable to related party	-	(41,667)	-
Net cash used by operating activities	<u>(1,806,997)</u>	<u>(919,231)</u>	<u>(5,934,812)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of discontinued operations	-	8,000,000	-
Purchase of property, mineral rights and equipment	(72,500)	(476,000)	(656,500)
Payment received on note receivable	600,000	-	600,000
Change in restricted cash	-	-	(201,086)
Change in other assets	-	-	(50,000)
Net cash provided (used) by investing activities	<u>527,500</u>	<u>7,524,000</u>	<u>(307,586)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of stock, net of stock offering costs	888,415	-	888,415
Payments on convertible note payable to related party	-	(5,000,000)	(5,000,000)
Proceeds from exercise of stock options	-	11,550	11,550
Payments on long term debt	-	(681,793)	-
Payments on capital leases	-	(346,908)	-
Net cash provided (used) by financing activities	<u>888,415</u>	<u>(6,017,151)</u>	<u>(4,100,035)</u>
Net increase (decrease) in cash and cash equivalents	(391,082)	587,618	(10,342,433)
CASH AND CASH EQUIVALENTS INCLUDED IN CURRENT ASSETS HELD FOR SALE AT BEGINNING OF PERIOD	-	2,812,053	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,034,080	1,827,896	10,985,431
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 642,998</u>	<u>\$ 5,227,567</u>	<u>\$ 642,998</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES:			
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
Deposits and other assets received from lease of mineral rights	25,000	-	75,000

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

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 closed the sale of Timberline Drilling and World Wide (see Note 13) and became an exploration stage enterprise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. *Basis of Presentation* – 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 and six month periods ended March 31, 2013 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2013. 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 year ended September 30, 2012.

The consolidated financial statements for the three and six months ended March 31, 2013 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. *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. *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).
- d. *Net Income (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, in periods of future income as of March 31, 2013 and 2012, would be as follows:

	<u>2013</u>	<u>2012</u>
Stock options	6,239,357	5,611,500
Warrants	150,000	-
Total possible dilution	<u>6,389,357</u>	<u>5,611,500</u>

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

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

At March 31, 2013 and 2012, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive.

- e. *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 (see Note 9).
- f. *New accounting pronouncements* – In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income. 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 effective for public entities in fiscal years (including interim periods) beginning after December 15, 2011. Adoption of this guidance did not have a material effect on our consolidated financial statements.

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This standard requires companies to present information about reclassification adjustments from accumulated other comprehensive income to the income statement, including the income statement line items affected by the reclassification. The information must be presented in the financial statements in a single note or on the face of the financial statements. The new accounting guidance also requires the disclosure to be cross referenced to other financial statement disclosures for reclassification items that are not reclassified directly to net income in their entirety in the same reporting period. The new requirements are effective for public entities in fiscal years (including interim periods) beginning after December 15, 2012. Adoption of this guidance did not have a material effect on our consolidated financial statements.

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>March 31,</u> <u>2013</u>	<u>September 30,</u> <u>2012</u>	<u>Input</u> <u>Hierarchy</u> <u>Level</u>
Assets:			
Cash	\$ 642,998	\$ 1,034,080	Level 1
Restricted cash	639,422	639,422	Level 1

NOTE 4 – INVESTMENT IN JOINT VENTURE:

In July 2009, we entered into a joint venture operating agreement (the “Operating Agreement”) with Highland Mining, LLC (“Highland”) (see Note 8). 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 (\$642,450), we hold a 50% interest in BHJV. Under terms of the Operating Agreement, our interest in BHJV will be carried to production by Highland, which will fund all future project exploration and mine development costs.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 4 – INVESTMENT IN JOINT VENTURE (continued):

Under the Operating 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.

NOTE 5 – NOTE RECEIVABLE:

We have a note receivable as a portion of the consideration received from the sale of Timberline Drilling in November 2011 (see Note 13). 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.

The following table summarizes activity in the Company's note receivable:

	Six months ended March 31, 2013	Year ended September 30, 2012
Beginning balance	\$ 1,350,000	\$ -
Note receivable acquired	-	1,350,000
Repayment of note receivable	(600,000)	-
Ending balance	<u>\$ 750,000</u>	<u>\$ 1,350,000</u>

Interest income on the note receivable is included in the consolidated statements of operations as follows:

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Interest income	\$ 28,438	\$ 33,658	\$ 62,465	\$ 53,261

Subsequent to March 31, 2013, the remaining balance of the note receivable was repaid by Timberline Drilling.

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 (see Note 13). 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 the Company's prepaid drilling services:

	Six months ended March 31, 2013	Year ended September 30, 2012
Beginning balance	\$ 887,116	\$ -
Prepaid drilling services acquired	-	1,100,000
Prepaid drilling services used	-	(212,884)
Less current portion	(227,116)	-
Ending balance	<u>\$ 660,000</u>	<u>\$ 887,116</u>

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 7 – DEPOSITS AND OTHER ASSETS:

Deposits and other assets on our consolidated balance sheets include an investment in shares of common stock of Daycon Minerals (“Daycon”), a private Canadian mineral exploration company. This investment is accounted for using the cost method, as follows:

	<u>March 31, 2013</u>	<u>September 30, 2012</u>
Shares of common stock owned	1,300,000	700,000
Carrying value of investment	\$ 325,000	\$ 175,000

500,000 shares of Daycon common stock were acquired during the year ended September 30, 2012 as consideration under exploration agreements granting Daycon the right to explore our Snowstorm Prospect as well as our Montana Cooper-Silver Properties. We acquired an additional 600,000 shares of Daycon common stock during the quarter ended March 31, 2013 under these same exploration agreements. We recognized a gain on lease of mineral rights of \$125,000 upon the receipt of the Daycon common stock during the quarter ended March 31, 2013, net of a reduction of our capitalized interest in the leased mineral properties from \$25,000 to zero. In addition, we acquired 200,000 shares of Daycon common stock in exchange for \$50,000 cash during the year ended September 30, 2012.

We have not estimated the fair value of our investment in Daycon as there have been no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. In addition, we have determined that it is not practicable to estimate the fair value of our investment in Daycon given the absence of a quoted market price for the investment and the materiality of the investment to the Company.

NOTE 8 – RELATED PARTY TRANSACTIONS:

Butte Highlands Joint Venture Agreement

In 2009, we entered into an Operating Agreement with Highland, an entity controlled by Ron Guill, a former director of the Company, to form a 50/50 joint venture for development and mining of the Company’s Butte Highlands Gold Project (see Note 4). Under the terms of the Operating Agreement, we contributed our 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 not affiliated with the Company or Ron Guill. As a result, Highland is no longer a related party to the Company and Ron Guill is no longer the manager of BHJV. At March 31, 2013 and September 30, 2012, we have a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$19,840 and \$773,028, respectively.

NOTE 9 – ASSET RETIREMENT OBLIGATION:

We have an asset retirement obligation (“ARO”) 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 we incurred the obligation, which is estimated at 10 years.

The following table summarizes activity in our ARO liability:

	<u>Six months ended</u> <u>March 31, 2013</u>	<u>Year ended</u> <u>September 30, 2012</u>
Beginning balance	\$ 119,831	\$ 114,125
Accretion expense	2,960	5,706
Ending balance	<u>\$ 122,791</u>	<u>\$ 119,831</u>

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 10 – INCOME TAXES:

For the fiscal year ending September 30, 2013 we anticipate an effective income tax rate of 0% in the United States and 0% in Canada due to the availability of accumulated net operating losses to offset any U.S. and Canadian income taxes.

NOTE 11 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

Public Offering

In December 2012, we closed an underwritten public offering of our common stock to investors in the United States (the “Public Offering”). We entered into an underwriting agreement to sell 5,750,000 shares of common stock at a price of \$0.20 per share for gross proceeds of \$1,150,000. We incurred \$261,585 in expenses with respect to the offering, resulting in net proceeds of \$888,415. In connection with the offering, we also issued 150,000 warrants to the underwriter of the public offering. Each warrant is exercisable to acquire one share of common stock at an exercise price of \$0.25 per share for a two year period commencing December 26, 2013. The warrants are exercisable by the holders on a cashless basis, but no registration rights were granted for the shares of common stock underlying the warrants.

Warrants

The following is a summary of the Company’s warrants outstanding:

	<u>Warrants</u>		<u>Exercise Price</u>
Outstanding at September 30, 2012	-	\$	-
Issued	150,000		0.25
Exercised	-		-
Expired	-		-
Outstanding at March 31, 2013	<u>150,000</u>	<u>\$</u>	<u>0.25</u>

We issued 150,000 warrants during the six months ended March 31, 2013 in connection with our Public Offering. The warrants are exercisable on a cashless basis, at the holders’ option, for a two year term commencing December 26, 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.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 12 – 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 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 market value of our stock at the date of grant.

The fair value of option awards granted during the six months ended March 31, 2013 and 2012 were estimated on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table.

	Six months ended March 31, 2013	Six months ended March 31, 2012
Expected volatility	71.3%	85.3-95.4%
Weighted-average volatility	71.3%	90.4%
Expected dividends	-	-
Expected term (in years)	3	3
Risk-free rate	0.38%	0.31-0.37%
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:

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Salaries and benefits	\$ -	\$ 29,000	\$ -	\$ 29,000
Other general and administrative expenses	10,000	-	10,000	42,000
Total	<u>\$ 10,000</u>	<u>\$ 29,000</u>	<u>\$ 10,000</u>	<u>\$ 71,000</u>

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, 2012	6,491,500	\$ 0.93
Granted	100,000	0.22
Exercised	-	-
Expired	(352,143)	3.68
Outstanding at March 31, 2013	<u>6,239,357</u>	<u>\$ 0.76</u>
Exercisable at March 31, 2013	<u>6,239,357</u>	<u>\$ 0.76</u>
Weighted average fair value of options granted during the six months ended March 31, 2013		<u>\$ 0.10</u>
Unrecognized compensation expense related to options at March 31, 2013		<u>\$ -</u>
Average remaining contractual term of options outstanding and exercisable at March 31, 2013 (years)		2.15

The aggregate of options both outstanding and exercisable as of March 31, 2013 had no intrinsic value based on the closing price of \$0.17 per share of our common stock on March 31, 2013.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013

NOTE 13 – 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 subsidiary, Timberline Drilling. The results of operations for Timberline Drilling have been reported in discontinued operations for all periods presented. In November 2011, the sale of Timberline Drilling was completed. Total consideration received by the Company 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 the Company 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. The Company recognized a \$1,636,938 gain on the sale of Timberline Drilling, with no income taxes arising from the transaction.

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 5). As of March 31, 2013, \$600,000 of the note receivable has been repaid. Subsequent to March 31, 2013, the remaining \$750,000 balance of the note receivable was repaid.

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

No revenues or expenses of Timberline Drilling are included in income from discontinued operations in the consolidated statement of operations for the three and six months ended March 31, 2013. The following table details selected financial information for Timberline Drilling included in income from discontinued operations in the consolidated statements of operations for the three and six months ended March 31, 2012:

	Three months ended	Six months ended
	March 31, 2012	March 31, 2012
Revenues	\$ -	\$ 3,173,633
Cost of revenues	-	(2,300,585)
Operating expenses	-	(372,437)
Interest and other income	-	188
Interest expense	-	(16,157)
Net income	-	484,642
Gain on disposal	-	1,636,938
Net income from discontinued operations	\$ -	\$ 2,121,580

Our consolidated balance sheet had no assets or liabilities held for sale as of March 31, 2013 or September 30, 2012.

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.

Forward-Looking Statements

This quarterly report 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;
- 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 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 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, 2012, filed with the Securities and Exchange Commission (the “SEC”) on December 10, 2012. 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 report by the foregoing cautionary statements.

Corporate Background and History

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 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 enables 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 South Eureka Property 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 2013.

Mineral Exploration

South Eureka Property, Nevada

The South Eureka Property, including the Lookout Mountain Project, comprises an area of approximately 15,000 acres, or more than 23 square miles. The South Eureka Property is located within the southern portion of Nevada’s Battle Mountain-Eureka gold trend and includes a 4-mile strike length of structurally and stratigraphically controlled gold mineralization, all zones of which are open and will require additional in-fill and step-out drilling. The property 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 Nevada 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 the Lookout Mountain Project.

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.

During the year ended September 30, 2012 we released updated mineralization details on the Lookout Mountain Project 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 existing mineral deposit, 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 the Lookout Mountain Project.

During the six months ended March 31, 2013, we completed our 2012 exploration program at Lookout Mountain, including 26,140 feet total of infill-drilling. This program focused on advancement of mineralization, metallurgical, geotechnical, and permitting studies in preparation for an anticipated Preliminary Economic Assessment (“PEA”) of the project.

Assay results from drilling were incorporated into an updated NI 43-101 Technical Report which was completed during the quarter ended March 31, 2013 in preparation for the anticipated PEA. 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 investigations 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.

There are no proven and probable reserves as defined under Guide 7 at the South Eureka property 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 production in mid-2013. 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 production 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 subsequent to March 31, 2013 we received a draft MPDES Permit. We expect to receive the final MPDES permit later in fiscal 2013.

During the six months ended March 31, 2013, a significant project milestone was achieved with the receipt of a notice of completeness and draft HRO Permit from the MDEQ. With environmental baseline studies substantially complete,

issuance of the HRO Permit is expected in the third quarter of 2013. Upon issuance of the final HRO Permit, final construction activities will commence soon thereafter.

The United States Forest Service (“USFS”) has completed specialist studies in support of a proposed Plan of Operations (“POO”) to allow the usage of USFS roads for ore haulage from the mine site. The POO is expected to be approved in the third fiscal quarter of 2013.

Timberline's joint venture at the Butte Highlands Project calls for its retention of a 50-percent project interest while being carried to production by Highland. Once in production, 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, there are no proven and probable reserves at the property under Guide 7, and there is no certainty the proposed operations will be economically viable.

Summary

We believe the global economic environment and monetary climate favor a solid and relatively steady gold price for the foreseeable future. Volatility is to be expected, however our view is that our business model can continue to advance even if gold prices retreat significantly from current levels.

As a company, we are focused on advancing the Butte Highlands Project toward expected gold production in 2013, subject to receipt of the necessary permits, as discussed above, advancing exploration programs at Lookout Mountain and other potential projects on our South Eureka Property and other properties acquired in Nevada, and continuing to evaluate new mineral exploration opportunities that fit with our business model. We have evaluated a number of projects and opportunities during the past several months 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 they will continue to do so.

Results of Operations for the Three and Six Month Periods ended March 31, 2013 and 2012

Consolidated Results

(\$US)	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Exploration expenses :				
South Eureka/Lookout Mountain	\$ 269,474	\$ 313,711	\$ 1,027,668	\$ 1,217,054
Butte Highlands	-	13,953	-	13,953
Other exploration properties	71,041	125,976	119,038	278,193
Total exploration expenditures	340,515	453,640	1,146,706	1,509,200
Non-cash expenses:				
Stock option and stock issuance expense	10,000	29,000	10,000	71,000
Depreciation, amortization and accretion	9,125	16,570	18,226	34,012
Total non-cash expenses	19,125	45,570	28,226	105,012
Professional fees expense	34,305	39,559	108,759	188,828
Salaries and benefits	201,093	367,758	402,192	533,950
Gain on lease of mineral rights	(125,000)	-	(125,000)	-
Interest expense	-	-	-	71,274
Interest and other income	(27,943)	(36,437)	(61,444)	(58,023)
Other general and administrative expenses	210,719	229,461	354,364	416,749
Loss from continuing operations	(652,814)	(1,099,551)	(1,853,803)	(2,766,990)
Income from discontinued operations	-	-	-	2,121,580
Net loss	\$ (652,814)	\$ (1,099,551)	\$ (1,853,803)	\$ (645,410)

Our consolidated net loss for the three months ended March 31, 2013 was \$652,814 compared to a consolidated net loss of \$1,099,551 for the three months ended March 31, 2012. The year over year difference is attributable to reduced exploration expenses during the quarter ended March 31, 2013, recognition of a gain on the lease of our mineral rights on the Snowstorm and Montana Copper-Silver Properties, as well as higher salaries and benefits expenses in the previous year associated with a termination of previously existing retirement plans for certain of our executive officers.

For the six months ended March 31, 2013, our consolidated net loss was \$1,853,803 compared to a consolidated net loss of \$645,410 for the six months ended March 31, 2012. The year over year difference is primarily attributable to the absence of income from our subsidiary, Timberline Drilling, which was sold in November 2011, offset in part by reduced exploration expenses, professional fees, salaries and benefits expenses and financial advisory fees during the six months ended March 31, 2013. In addition, we recognized a gain on the lease of our mineral rights on the Snowstorm and Montana Copper-Silver Properties during fiscal 2013.

Our exploration expenses at South Eureka were lower in the six months ended March 31, 2013 compared to the same period in fiscal 2012 primarily due to significant exploration work ceasing earlier in the 2013 fiscal period. Our expenses for professional fees and financial advisory fees were lower during the six months ended March 31, 2013 compared to the same period in fiscal 2012 primarily as a result of legal, accounting and advisory costs associated with our disposition of Timberline Drilling in November 2011. We recognized lower payroll expenses during the six months ended March 31, 2013 compared to the same period in fiscal 2012 due to the termination of previously existing retirement plans for certain of our executive officers in the prior period.

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 subsidiary, Timberline Drilling, Inc. 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 November 2011. Total consideration received 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 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 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.

In January, 2012 the working capital adjustment receivable of \$1,657,625 was paid to us by Timberline Drilling. As of March 31, 2013, \$600,000 of the \$1,350,000 note receivable has been repaid. Subsequent to March 31, 2013, the remaining \$750,000 balance of the note receivable was repaid.

No revenues or expenses of Timberline Drilling are included in income from discontinued operations in the consolidated statement of operations for the three and six months ended March 31, 2013. The following table details selected financial information included in the income from discontinued operations in our consolidated statement of operations for the three and six months ended March 31, 2012.

(\$US)	Three Months Ended March 31, 2012	Six Months Ended March 31, 2012
Revenues	\$ -	\$ 3,173,633
Cost of revenues	-	(2,300,585)
Operating expenses	-	(372,437)
Interest and other income (expense)	-	188
Interest expense	-	(16,157)
Net income	-	484,642
Gain on disposal	-	1,636,938
Income from discontinued operations	\$ -	\$ 2,121,580

Financial Condition and Liquidity

At March 31, 2013, we had assets of \$17,665,570 consisting of cash in the amount of \$642,998; property, mineral rights and equipment, net of depreciation of \$13,668,307; a note receivable of \$750,000, and other assets in the amount of \$2,604,265.

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 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 March 31, 2013, we had a working capital surplus of \$1,248,825. Subsequent to March 31, 2013, Timberline Drilling repaid the remaining \$750,000 balance of its note receivable to us. As of the date of filing of this report, we have no outstanding debt and a cash balance of approximately \$1 million. Management expects to maintain or increase the amount of working capital and minimize expenditures by minimizing discretionary exploration expenditures, minimizing professional and consulting expenses, and potentially obtaining financing through equity investments or joint venture agreements. 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.

As a result of our current cash balance, our ability to curtail discretionary exploration expenditures as needed, as well as the expected commencement of cash flows from our Butte Highlands Gold Project, we believe that we have 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.

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 report, 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 Controls 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, 2012 which was filed with the SEC on December 10, 2012.

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

During the quarter ended March 31, 2013 we acquired the right to an exclusive due diligence period to assess the potential acquisition of 86 unpatented mining claims, covering 1,720 acres, in Nevada. The exclusive due diligence period was acquired in exchange for 100,000 shares of common stock of the Company with a value of \$21,500, based upon the closing price of the Company's common stock on the NYSE MKT on the date of issuance.

The shares of common stock were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") provided by Section 4(2) of the Securities and/or Rule 506 of Regulation D under the Securities Act and the exclusion from the registration requirements of the Securities Act provided by Regulation S under the Securities Act.

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 March 31, 2013, 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.

- 31.1** Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 31.2** Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
- 32.1** Certification of Chief Executive Officer pursuant to Section 18 U.S.C Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 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⁽¹⁾** XBRL Instance Document
- 101.SCH⁽¹⁾** XBRL Taxonomy Extension Schema Document
- 101.CAL⁽¹⁾** XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF⁽¹⁾** XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB⁽¹⁾** XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE⁽¹⁾** XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

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/ Paul Dircksen

Paul Dircksen
President, Chief Executive Officer and Chairman
(Principal Executive Officer)

Date: May 9, 2013

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
(Principal Financial Officer)

Date: May 9, 2013

CERTIFICATION

I, Paul Dircksen, 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: May 9, 2013

By: /s/ Paul Dircksen

Paul Dircksen
President, Chief Executive Officer & Chairman
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: May 9, 2013

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 March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul Dirksen, President, Chief Executive Officer and Chairman 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: May 9, 2013

By: /s/ Paul Dirksen

Paul Dirksen
President, Chief Executive Officer & Chairman
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 March 31, 2013, 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: May 9, 2013

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.