

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, 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

(State of other jurisdiction of incorporation or organization)

82-0291227

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

**101 EAST LAKESIDE AVENUE
COEUR D'ALENE, IDAHO**

(Address of Principal Executive Offices)

83814

(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 12, 2014: 74,868,938

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.	13
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	20
ITEM 4. CONTROLS AND PROCEDURES	20
PART II — OTHER INFORMATION	21
ITEM 1. LEGAL PROCEEDINGS.	21
ITEM 1A. RISK FACTORS	21
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.	21
ITEM 3. DEFAULTS UPON SENIOR SECURITIES.	21
ITEM 4. MINE SAFETY DISCLOSURES	21
ITEM 5. OTHER INFORMATION.	22
ITEM 6. EXHIBITS.	22
SIGNATURES	23

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 (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, 2014 (unaudited)	September 30, 2013 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 241,544	\$ 824,919
Prepaid expenses and other current assets	114,565	30,151
Joint venture receivable	34,275	53,586
TOTAL CURRENT ASSETS	390,384	908,656
PROPERTY, MINERAL RIGHTS AND EQUIPMENT	14,137,135	14,037,784
OTHER ASSETS:		
Prepaid drilling services	440,000	660,000
Investment in joint venture	642,450	642,450
Restricted cash	624,422	639,422
Deposits and other assets	4,500	4,500
TOTAL OTHER ASSETS	1,711,372	1,946,372
TOTAL ASSETS	\$ 16,238,891	\$ 16,892,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 127,723	\$ 204,897
Accrued expenses	184,167	213,292
Accrued payroll, benefits and taxes	36,998	52,444
Note and interest payable	501,027	-
TOTAL CURRENT LIABILITIES	849,915	470,633
LONG-TERM LIABILITIES:		
Asset retirement obligation	128,932	125,823
TOTAL LONG-TERM LIABILITIES	128,932	125,823
COMMITMENTS (Note 10)	-	-
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, 74,868,938 and 74,021,879 shares issued and outstanding, respectively	74,869	74,022
Additional paid-in capital	58,356,775	58,207,622
Accumulated deficit	(31,678,445)	(31,678,445)
Accumulated deficit during the exploration stage	(11,493,155)	(10,306,843)
TOTAL STOCKHOLDERS' EQUITY	15,260,044	16,296,356
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 16,238,891	\$ 16,892,812

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,		From Inception of Exploration Stage November 9, 2011 through March 31, 2014
	2014	2013	2014	2013	
OPERATING EXPENSES:					
Mineral exploration expenses	\$ 88,674	\$ 340,515	\$ 252,624	\$ 1,146,706	\$ 6,739,756
Gain on lease of mineral rights	-	(125,000)	-	(125,000)	(325,000)
Salaries and benefits	319,982	201,093	521,494	402,192	2,295,264
Professional fees expense	78,544	34,305	136,463	108,759	563,932
Insurance expense	19,048	28,069	41,361	53,382	248,353
Gain on disposal of equipment	-	-	(16,565)	-	(16,565)
Other general and administrative expenses	99,339	201,775	178,553	329,208	1,577,791
TOTAL OPERATING EXPENSES	<u>605,587</u>	<u>680,757</u>	<u>1,113,930</u>	<u>1,915,247</u>	<u>11,083,531</u>
LOSS FROM OPERATIONS	<u>(605,587)</u>	<u>(680,757)</u>	<u>(1,113,930)</u>	<u>(1,915,247)</u>	<u>(11,083,531)</u>
OTHER INCOME (EXPENSE):					
Foreign exchange loss	(1,017)	(614)	(1,443)	(1,285)	(3,807)
Interest income (expense), net	(1,017)	28,557	(939)	62,729	193,791
Related party interest expense	-	-	-	-	(29,608)
Loss on settlement of prepaid drilling services	(70,000)	-	(70,000)	-	(70,000)
Impairment of available-for-sale securities	-	-	-	-	(50,000)
Impairment of other assets	-	-	-	-	(450,000)
TOTAL OTHER INCOME (EXPENSE), NET	<u>(72,034)</u>	<u>27,943</u>	<u>(72,382)</u>	<u>61,444</u>	<u>(409,624)</u>
LOSS BEFORE INCOME TAXES	<u>(677,621)</u>	<u>(652,814)</u>	<u>(1,186,312)</u>	<u>(1,853,803)</u>	<u>(11,493,155)</u>
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>(677,621)</u>	<u>(652,814)</u>	<u>(1,186,312)</u>	<u>(1,853,803)</u>	<u>(11,493,155)</u>
OTHER COMPREHENSIVE (LOSS):					
Reclassification of net loss on available-for-sale equity securities included in net loss	-	-	-	-	(486,400)
COMPREHENSIVE LOSS	<u>\$ (677,621)</u>	<u>\$ (652,814)</u>	<u>\$ (1,186,312)</u>	<u>\$ (1,853,803)</u>	<u>\$ (11,979,555)</u>
NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	<u>74,818,611</u>	<u>68,104,101</u>	<u>74,489,494</u>	<u>65,313,912</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, 2014
	2014	2013	March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (1,186,312)	\$ (1,853,803)	\$ (11,493,155)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	7,158	15,266	85,966
Loss on settlement of prepaid drilling services	70,000	-	70,000
Stock based compensation	-	10,000	338,000
Gain on disposal of equipment	(16,565)	-	(16,565)
Accretion of asset retirement obligation	3,108	2,960	14,806
Gain on lease of mineral rights	-	(125,000)	(325,000)
Stock issued for mineral exploration expenses	110,000	21,500	131,500
Impairment of other assets	-	-	450,000
Amortization of deferred financing cost with related party	-	-	15,909
Impairment of available-for-sale equity securities	-	-	50,000
Changes in operating assets and liabilities:			
Prepaid drilling services, prepaid expenses and other current assets, deposits and other assets	(84,414)	(18,277)	645,065
Joint venture receivable	19,311	753,188	6,135
Accounts payable	(77,173)	(626,071)	(273,222)
Accrued interest and expenses	(28,098)	14,375	185,194
Accrued payroll, benefits and taxes	(15,446)	(1,135)	36,998
Receivable from sale of discontinued operations	-	-	1,657,625
Net cash used by operating activities	<u>(1,198,431)</u>	<u>(1,806,997)</u>	<u>(8,420,744)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, mineral rights and equipment	(72,000)	(72,500)	(804,500)
Proceeds from sale of property, mineral rights and equipment	22,056	-	22,056
Payment received on note receivable	-	600,000	1,350,000
Change in restricted cash	15,000	-	(186,086)
Settlement of prepaid drilling services	150,000	-	150,000
Change in other assets	-	-	(50,000)
Net cash provided by investing activities	<u>115,056</u>	<u>527,500</u>	<u>481,470</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of stock and warrants, net of stock offering costs	-	888,415	1,683,837
Proceeds from issuance of note payable	500,000	-	500,000
Payments on convertible note payable to related party	-	-	(5,000,000)
Proceeds from exercise of stock options	-	-	11,550
Net cash provided (used) by financing activities	<u>500,000</u>	<u>888,415</u>	<u>(2,804,613)</u>
Net decrease in cash and cash equivalents	(583,375)	(391,082)	(10,743,887)
CASH AT BEGINNING OF PERIOD	824,919	1,034,080	10,985,431
CASH AT END OF PERIOD	<u>\$ 241,544</u>	<u>\$ 642,998</u>	<u>\$ 241,544</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Common stock issued for mineral rights	\$ 40,000	\$	\$ 846,000
Long term investment received from lease of mineral rights	-	25,000	75,000

See accompanying notes to consolidated financial statements.

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 an exploration stage 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 and six month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2014. 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, 2013.

The consolidated financial statements for the three and six month periods ended March 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. *Exploration Stage Enterprise* – Following the sale of Timberline Drilling, we are in the exploration stage of operation. Therefore, as of November 9, 2011, our financial statements have been 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 could 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) and accumulated deficit.
- d. *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 March 31, 2014 and 2013, would be as follows:

	<u>2014</u>	<u>2013</u>
Stock options	3,334,000	6,239,357
Warrants	300,000	150,000
Total possible dilution	<u>3,634,000</u>	<u>6,389,357</u>

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

At March 31, 2014 and 2013, 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.
- f. *New accounting pronouncements* – 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.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This standard provides guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new requirements are effective for public entities in fiscal years (including interim periods) beginning after December 15, 2013. Adoption of this guidance is not expected to 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, 2014</u>	<u>September 30, 2013</u>	<u>Input Hierarchy Level</u>
Assets:			
Cash	\$ 241,544	\$ 824,919	Level 1
Restricted cash	624,422	639,422	Level 1

NOTE 4 – 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 (\$642,450), 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.

NOTE 4 – INVESTMENT IN JOINT VENTURE, (continued):

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 March 31, 2014 and September 30, 2013, we have a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$34,275 and \$53,586, respectively.

NOTE 5 – 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 quarter ended March 31, 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:

	Six months ended March 31, 2014		Year ended September 30, 2013
Beginning balance	\$ 660,000	\$	887,116
Cash received in lieu of drilling services	(150,000)		(227,116)
Loss on settlement of prepaid drilling services	(70,000)		-
Ending balance	<u>\$ 440,000</u>	<u>\$</u>	<u>660,000</u>

NOTE 6 – 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). 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.

Daycon Minerals

We own approximately 18% and 15% of the issued and outstanding stock of Daycon Minerals (“Daycon”) as of March 31, 2014 and September 30, 2013, respectively. In addition, our President and CEO, Paul Dircksen, is a member of the board of directors of Daycon as of March 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 7 – 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 Gold Corp. (“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 is the subject of a letter of intent between the parties dated effective March 11, 2014.

Pursuant to the Note, the Company has 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 will bear interest at 5% during the first six months of the loan and thereafter at 10% until repaid. Interest is payable in arrears on the date that the Note is prepaid, in proportion to the principal amount being prepaid, or on the date that the Note is due and payable. The Note is due and payable on the earlier of (i) five business days after the Proposed Transaction closes or (ii) March 15, 2015. The Company may repay the outstanding principal balance on the Note, in whole or in part, without penalty or premium, at any time and from time to time before the Note is due and payable. The Note is secured by the Company’s interest in the Seven Troughs property. The Note, including principal and accrued interest, is expected to be forgiven upon completion of the Proposed Transaction.

As of March 31, 2014, Wolfpack had advanced \$500,000 to the Company and \$1,027 of interest had accrued under the Note. The Note provides for additional tranches of \$250,000 to be advanced based on future funding requests by the Company.

If the Proposed Transaction does not complete prior to March 15, 2015 and any indebtedness under the Note is not otherwise prepaid, then on the maturity date of the Note and subject to any required regulatory approvals and available prospectus exemptions, Wolfpack may, in exchange for indebtedness under the Note, elect to receive shares of the Company’s common stock obtained by dividing the amount of Note indebtedness (outstanding principal plus accrued interest) that Wolfpack wishes to convert by \$0.14 (for outstanding principal amounts to be converted) or the market price (as defined in the rules of the TSX Venture Exchange) of the Company’s common stock on the NYSE MKT exchange where the Company’s common stock trades (for outstanding interest to be converted).

The Company has determined that the conversion price represents a beneficial conversion feature. However, since the conversion feature is effective only if the Proposed Transaction is not completed prior to March 15, 2015, the Company has measured the conversion feature at the date of the initial advance on the Note, but will not recognize it until the actual commitment date (if necessary), which the Company has determined to be March 15, 2015.

The Company’s negative covenants under the Note include covenants that the Company will not, without the prior written consent of Wolfpack, do any of the following:

- (i) pay any dividend or other distribution to its shareholders, except such as may occur in connection with the Proposed Transaction;
- (ii) lend money, guarantee a loan or grant any other form of financial assistance or benefit to any person;
- (iii) make any material payments to its shareholders, directors or officers other than to Wolfpack and other than in the ordinary course of business, amounts paid to settle loans advanced by such parties or amounts paid pursuant to employment or consulting arrangements with such parties;
- (iv) create, incur, assume or permit to exist any indebtedness, except the indebtedness created under the Note and except as during normal course of business;
- (v) create, incur, assume or permit to exist any lien on the Seven Troughs property, except for (A) the security interest granted to Wolfpack pursuant to the Note and the Deed of Trust, and (B) liens permitted under the Note (including liens for taxes not yet due and payable, survey exceptions, easements or zoning restrictions affecting the Seven Troughs property, rights reserved to governmental entities and other liens that do not materially impair the current use of the Seven Troughs property);
- (vi) enter into any arrangement, directly or indirectly, with any person for the sale or transfer of any interest in the Seven Troughs property, unless such arrangement provides for the payment of all outstanding indebtedness under the Note prior to or concurrently with the closing of such arrangement;
- (vii) amend its constating documents or by-laws, as applicable, except as done by shareholders at a properly constituted meeting or such amendments by the board of directors that do not or could not reasonably be expected to result in a material adverse effect or affect the Company’s obligations under the Note, the

Company's ability to meet its obligations under the Note, the security interest granted pursuant to the Deed of Trust or otherwise result in an Event of Default;

- (viii) merge, amalgamate or otherwise consolidate with any other person; except as such may occur in connection with the Proposed Transaction; and
- (ix) enter into any agreement or arrangement with any person or create, incur, assume or permit to exist any royalty of any type on the Seven Troughs property.

NOTE 8 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

Common Stock

During the six months ended March 31, 2014, pursuant to a vendor agreement related to the provision of metallurgical testing services, we issued 647,059 restricted common shares with a value of \$110,000 based upon the closing price of our shares of common stock as quoted on the NYSE MKT.

In December 2013, we announced that we had entered into a confidentiality agreement with RockStar Resources, Inc. ("RockStar"), including a No-Shop/Exclusivity clause valid through February 28, 2014. Pursuant to the agreement, RockStar agreed to purchase \$750,000 in shares of our common stock at a price of \$0.20 per share in three, equal, installments of \$250,000 on or before December 31, 2013, January 31, 2014 and February 28, 2014. As of March 31, 2014, RockStar has not purchased any shares of our common stock and we do not expect that they will.

During the six month period ended March 31, 2014, pursuant to an amended mineral property lease and option agreement, we issued 200,000 restricted common shares with a value of \$40,000 based upon the closing price of our shares of common stock as quoted on the NYSE MKT.

Warrants

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

	Warrants	Exercise Price
Outstanding at September 30, 2013	300,000	\$ 0.25
Issued	-	-
Exercised	-	-
Expired	-	-
Outstanding at March 31, 2014	<u>300,000</u>	<u>\$ 0.25</u>

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 9 – 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.

No option awards were granted during the three months or six months ended March 31, 2014, and no option awards vested under the plan during those periods. Therefore, no stock option expense is included in the consolidated statements of operations for the three months or six months ending March 31, 2014. During the three months and six months ended March 31, 2013, 100,000 options that vested immediately were granted to a director, and no other options were granted or vested during the six months ending March 31, 2013.

The fair value of option awards granted during the six months ended March 31, 2013 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
Expected volatility	71.3%
Weighted-average volatility	71.3%
Expected dividends	-
Expected term (in years)	3
Risk-free rate	0.38%
Expected forfeiture rate	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,	
	2014	2013	2014	2013
Salaries and benefits	\$ -	\$ -	\$ -	\$ -
Other general and administrative expenses	-	10,000	-	10,000
Total	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 10,000</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, 2013	5,271,500	\$ 0.63
Granted	-	
Exercised	-	
Expired	<u>(1,937,500)</u>	<u>(0.47)</u>
Outstanding at March 31, 2014	<u>3,334,000</u>	<u>\$ 0.71</u>
Exercisable at March 31, 2014	<u>3,334,000</u>	<u>\$ 0.71</u>
Unrecognized compensation expense related to options at March 31, 2014		<u>\$ -</u>
Average remaining contractual term of options outstanding and exercisable at March 31, 2014 (years)		<u>1.88</u>

The aggregate of options both outstanding and exercisable as of March 31, 2014 had no intrinsic value based on the closing price of \$0.15 per share of our common stock on March 31, 2014.

NOTE 10 – 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 March 31,		Six months ended March 31,	
	2014	2013	2014	2013
Mineral exploration expenses	\$ 3,900	\$ 11,400	\$ 7,800	\$ 22,800
Other general and administrative expenses	12,000	12,000	24,000	24,000
Total	<u>\$ 15,900</u>	<u>\$ 23,400</u>	<u>\$ 31,800</u>	<u>\$ 46,800</u>

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;
- 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, 2013, filed with the Securities and Exchange Commission (the “SEC”) on December 18, 2013. 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 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 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 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 2014.

Recent Events

In March 2014, we entered into a letter of intent (“LOI”) to merge with Wolfpack Gold Corp. (“Wolfpack”), a gold exploration company with a substantial portfolio of properties in Nevada and approximately \$6.7 million in cash. Subsequently, during the due diligence period, the LOI was amended and restructured as an acquisition of Wolfpack with Timberline acquiring all the outstanding shares of a Wolfpack subsidiary, which will hold all of Wolfpack's current exploration assets other than its uranium holdings and approximately US\$4.7 million in cash in exchange for shares of common stock in the capital of Timberline at a ratio equal to 0.75 shares of Timberline for each outstanding share of Wolfpack.

Timberline and Wolfpack agreed to an exclusivity period through May 5, 2014, during which time the parties were to complete their respective due diligence and, upon satisfactory completion thereof, conclude a definitive agreement. The acquisition was expected to be completed by a plan of arrangement or other suitable mechanism.

At closing of the acquisition, we expect to reconstitute our board of directors to be comprised of five directors, three of whom will be nominated by Timberline and two of whom will be nominated by Wolfpack. Wolfpack chairman Mr. William Sheriff will be appointed as Chairman of the Board while Paul Dirksen will continue as our President and Chief Executive Officer and Randy Hardy will continue as our Chief Financial Officer. We also anticipate at closing that the Company will consolidate its shares on a ratio to be determined by our Board of Directors. Additionally, the agreement requires a break fee in the amount of US\$500,000 be paid by a party electing to terminate the definitive agreement to accept a third party superior proposal.

Under the terms of the agreement, Wolfpack agreed to provide Timberline with a bridge loan of up to US\$1,000,000 to fund our working capital needs during the interim period prior to the completion of the proposed transaction. Repayment of the loan is secured by our interest in the Seven Troughs property located in Pershing County, Nevada. The loan will mature on the earlier of completion of the acquisition and one year from the initial draw down under the loan. The amount drawn will bear interest at 5% during the first six months of the loan and thereafter at 10% until repaid (in each case compounded annually). Wolfpack provided us with the initial advance of US\$500,000 under the bridge loan on March 14, 2014.

Upon completion of the transaction, Timberline shareholders will hold, as a group, approximately 65% of the outstanding shares of Timberline, while Wolfpack shareholders will hold, as a group, approximately 35% of the outstanding Timberline shares. At a result of the acquisition, we will acquire a number of gold projects in Nevada and approximately US\$4.7 million in cash, inclusive of the loan. The exact transaction structure and timing will be determined following completion of due diligence and a review of tax, securities law and related issues, and remain subject to any necessary shareholder, corporate, and regulatory approvals.

Completion of the proposed acquisition is subject to a number of conditions, including satisfactory completion of due diligence by each of the parties, execution of a mutually acceptable definitive agreement by May 5, 2014, and receipt by both Wolfpack and Timberline of all stock exchange and third party approvals, including shareholder approval, if required. Advancement of the bridge loan and any conversion thereof into Timberline shares, is subject to receipt by both parties of stock exchange approval.

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 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 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.

In 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. In early 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 in early 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.

During the first half of 2013, we continued geochemical waste rock environmental characterization, completed independent metallurgical leach testing, continued water quality monitoring and defined hydrologic work plans. In addition, we consolidated our Elko field office into our Eureka facility.

During the second half of 2013 and the quarter ended March 31, 2014, we continued the baseline environmental data collection and analysis at Lookout Mountain, we furthered work toward the completion of an economic analysis, and we commissioned further metallurgical testing.

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 mineral extraction in 2014. 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.

During the quarter ended June 30, 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.

During the nine months ended June 30, 2013, 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 for the project upon which the final HRO Permit was scheduled to be issued in the late Q3 of 2013. A draft EIS was issued on October 11, 2013 and, after receipt of public comments thereupon, the MDEQ is preparing the final EIS document. Due to high MDEQ workloads, the final EIS and a Record of Decision, and the issuance of the final HRO Permit have been delayed and are now expected in the second quarter of 2014. Soon after the issuance of the final HRO Permit, final construction activities will commence. In advance of the final HRO Permit, the BHJV remobilized mining equipment and staff to the site to support additional mining pre-development and exploration work. Pre-development work completed in the 3rd and 4th quarters of 2013, and the 1st quarter of 2014, included approximately 1,000 feet of additional underground drifting towards the initial planned mine area, installation of a second dewatering well, two new monitoring wells, and initial components of the water discharge system and the water treatment plant. In addition, supplemental hydrology and water treatment studies have been completed to support optimization of dewatering and water treatment plans.

The United States Forest Service (“USFS”) has 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. Currently the USFS is 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. In the first quarter of 2014, a “Nationwide 404” Permit has been granted by the US Army Corp of Engineers (ACOE), and a Conservation District 310 Permit (pending final engineering design submittals) to the BHJV to allow needed road improvements across stream crossings and associated minor wetlands.

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 the Butte Highlands Project toward expected gold extraction in 2014, 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 exploring and identifying mineral occurrences on other properties acquired in Nevada. In addition, we will commence our evaluation of mineral properties we expect to acquire from Wolfpack, 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 Month Period ended March 31, 2014 and 2013

Consolidated Results

(\$US)	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
Exploration expenses :				
South Eureka/Lookout Mountain	\$ 66,184	\$ 269,474	\$ 179,897	\$ 1,027,668
Butte Highlands	-	-	-	-
Other exploration properties	22,490	71,041	72,727	119,038
Total exploration expenditures	88,674	340,515	252,624	1,146,706
Non-cash expenses:				
Stock option and stock issuance expense	-	10,000	-	10,000
Depreciation, amortization and accretion	3,572	9,125	10,267	18,226
Total non-cash expenses	3,572	19,125	10,267	28,226
Professional fees expense	78,544	34,305	136,463	108,759
Salaries and benefits	319,982	201,093	521,494	402,192
Gain on lease of mineral rights	-	(125,000)	-	(125,000)
Interest expense	1,017	-	939	-
Interest and other (income) expense	71,017	(27,943)	54,878	(61,444)
Other general and administrative expenses	114,815	210,719	209,647	354,364
Net loss	\$ (677,621)	\$ (652,814)	\$ (1,186,312)	\$ (1,853,803)

Our consolidated net loss for the three months ended March 31, 2014 was \$677,621 compared to a consolidated net loss of \$652,814 for the three months ended March 31, 2013. The year over year difference is minimal, and is comprised of a significant reduction in our exploration activity and other general and administrative expense during the quarter ended March 31, 2014 offset by payroll tax payments, the cost of the discount related to the early payment of the amount due under our prepaid drilling services agreement, and increased professional fees due to various transactions that were considered during the quarter ended March 31, 2014. We expect to prudently increase our exploration activity in future periods with funding from our proposed acquisition of Wolfpack. Our exploration expenses at South Eureka were lower in the three months ended March 31, 2014 compared to the same period in 2013 primarily due to significant exploration work being delayed in the current period to preserve our financial resources.

Our consolidated net loss for the six months ended March 31, 2014 was \$1,186,312 compared to a consolidated net loss of \$1,853,803 for the six months ended March 31, 2013. The year over year difference is primarily attributable to a significant reduction in our exploration activity and general and administrative expenses during the period ended March 31, 2014. We expect to prudently increase our exploration activity in future periods with funding from our proposed acquisition of Wolfpack. Our exploration expenses at South Eureka were lower in the six months ended March 31, 2014 compared to the same period in 2013 primarily due to significant exploration work being delayed in the current period to preserve our financial resources.

Financial Condition and Liquidity

At March 31, 2014, we had assets of \$16,238,891 consisting of cash in the amount of \$241,544; property, mineral rights and equipment, net of depreciation of \$14,137,135, and other assets in the amount of \$1,860,212.

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. Our anticipated acquisition of Wolfpack is expected to provide additional capital to finance our exploration operations.

At March 31, 2014, we had a working capital deficit of \$459,531, primarily due to the note payable to Wolfpack that is expected to be forgiven once the proposed acquisition of Wolfpack is completed. As of the date of filing of this Quarterly Report on Form 10-Q, we have \$750,000 plus accrued interest in short-term debt and a cash balance of approximately \$260,000.

Management expects to increase the amount of working capital by completing the acquisition of Wolfpack, carefully managing discretionary exploration expenditures, minimizing professional and consulting expenses, and potentially obtaining financing through asset sales, 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, or to seek additional acquisition opportunities.

We expect to be able to execute our short-term operating plans with our cash balance subsequent to our acquisition of Wolfpack. In order to execute our longer term exploration and development objectives, we anticipate the need to engage in financing transactions which may include equity financing, sales of assets, credit facilities or debenture issuances, or other strategic arrangements. Additional financing will be required to allow us to substantially advance our exploration program at our Lookout Mountain project, based on our current plans for that project. Butte Highlands continues to be carried to production (as defined in the joint venture agreement). Unexpected regulatory delays in permitting have, however, resulted in deferred receipts of cash flow. If and when extraction of mineralized material begins as anticipated in 2014, 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 such activities and that additional financing will still be necessary to fund our other exploration activities. 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

Except as detailed below, 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, 2013 which was filed with the SEC on December 18, 2013.

Our ability to operate as a going concern is in doubt.

The audit opinion and notes that accompany our consolidated financial statements for the year ended September 30, 2013, disclose a ‘going concern’ qualification to our ability to continue in business. The accompanying consolidated financial statements have been prepared under the assumption that we will continue as a going concern. We are an exploration stage company, and we have incurred losses since our inception. Management has determined that as of the date of this Quarterly Report on Form 10-Q, we do not have sufficient cash to fund normal operations and meet obligations for the next 12 months without completing the proposed acquisition of Wolfpack, deferring payment on certain obligations, and/or raising additional funds. We believe that the going concern condition cannot be removed until we receive additional financing and have entered into a business climate where funding of operations through continuing operations is more assured.

We currently have no historical recurring source of revenue and our ability to continue as a going concern is dependent on our ability to raise capital to fund our future exploration and working capital requirements or our ability to profitably execute our plan of operations. Our plans for the long-term return to, and continuation as, a going concern include financing our future operations through sales of our common stock and/or debt and the eventual profitable exploitation of our mining properties. Additionally, the current capital markets and general economic conditions in the United States are significant obstacles to raising the required funds. These factors raise substantial doubt about our ability to continue as a going concern.

The consolidated financial statements in our annual financial statements in our Form 10-K and in this Quarterly Report on Form 10-Q do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. If the going concern basis was not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

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 March 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.

- 10.1* Agreement between the Registrant and Timberline Drilling Inc. regarding early cash payment under the Drilling Services and Related Payments Obligations Agreement
- 10.2* Letter of Intent between the Registrant and Wolfpack dated March 11, 2014
- 10.3 Promissory Note dated March 14, 2014 between the Registrant and Wolfpack (incorporated by reference to exhibit 10.1 to the Registrant's Form 8-K filed with the SEC on March 20, 2014)
- 10.4 Deed of Trust dated March 14, 2014 between the Registrant and Wolfpack (incorporated by reference to exhibit 10.2 to the Registrant's Form 8-K filed with the SEC on March 20, 2014)
- 10.5* Amended Letter of Intent between the Registrant and Wolfpack dated April 14, 2014
- 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* 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/ Paul Dirksen

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

Date: May 12, 2014

By: /s/ Randal Hardy

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

Date: May 12, 2014

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 12, 2014

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 12, 2014

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, 2014, 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 12, 2014

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, 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: May 12, 2014

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.