

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 **June 30, 2012**

OR

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

For the transition period from _____ to _____

Commission file number: 001-34055



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 August 10, 2012: 62,271,879

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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
(An Exploration Stage Company)

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

	June 30, 2012 (unaudited)	September 30, 2011 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,740,622	\$ 1,827,896
Prepaid expenses and other current assets	631,580	358,962
Note receivable	1,350,000	-
Current portion of deferred financing cost with related party, net	-	15,909
Assets held for sale – current	-	6,645,359
TOTAL CURRENT ASSETS	<u>5,722,202</u>	<u>8,848,126</u>
PROPERTY, MINERAL RIGHTS AND EQUIPMENT	<u>13,586,233</u>	<u>12,619,092</u>
OTHER ASSETS:		
Prepaid drilling services	1,038,602	-
Investment in joint venture	642,450	642,450
Restricted cash	639,422	438,336
Deposits and other assets	129,500	153,094
Available-for-sale securities (cost: \$50,000)	298,000	536,400
Assets held for sale – non-current	-	8,740,068
TOTAL OTHER ASSETS	<u>2,747,974</u>	<u>10,510,348</u>
TOTAL ASSETS	<u>\$ 22,056,409</u>	<u>\$ 31,977,566</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 856,782	\$ 419,524
Accrued expenses	144,859	233,417
Accrued payroll, benefits and taxes	49,584	41,820
Accrued interest on convertible note payable to related party	-	41,667
Convertible note payable to related party	-	5,000,000
Liabilities held for sale – current	-	2,855,967
TOTAL CURRENT LIABILITIES	<u>1,051,225</u>	<u>8,592,395</u>
LONG-TERM LIABILITIES:		
Asset retirement obligation	118,387	114,125
Liabilities held for sale – non-current	-	616,603
TOTAL LONG-TERM LIABILITIES	<u>118,387</u>	<u>730,728</u>
COMMITMENTS (NOTE 14)		-
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, 62,271,879 and 61,189,417 shares issued and outstanding, respectively	62,272	61,189
Additional paid-in capital	56,198,035	55,317,568
Accumulated deficit	(31,678,445)	(33,210,714)
Accumulated deficit during the exploration stage	(3,943,065)	-
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale equity security	248,000	486,400
TOTAL STOCKHOLDERS' EQUITY	<u>20,886,797</u>	<u>22,654,443</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 22,056,409</u>	<u>\$ 31,977,566</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 June 30,		Nine months ended June 30,		From Inception of Exploration Stage November 9, 2011 through June 30, 2012
	2012	2011	2012	2011	2012
REVENUES	\$ -	\$ -	\$ -	\$ -	\$ -
COST OF REVENUES	-	-	-	-	-
GROSS PROFIT	-	-	-	-	-
OPERATING EXPENSES:					
Mineral exploration expenses	1,155,033	480,996	2,664,232	2,766,085	2,258,292
Gain on lease of mineral rights	(75,000)	-	(75,000)	-	(75,000)
Salaries and benefits	345,043	162,586	878,993	953,549	828,681
Professional fees expense	57,612	22,872	246,440	217,391	212,476
Insurance expense	22,490	22,578	73,854	63,263	72,115
Other general and administrative expenses	295,160	194,653	765,558	1,064,224	710,333
TOTAL OPERATING EXPENSES	<u>1,800,338</u>	<u>883,685</u>	<u>4,554,077</u>	<u>5,064,512</u>	<u>4,006,897</u>
LOSS FROM OPERATIONS	<u>(1,800,338)</u>	<u>(883,685)</u>	<u>(4,554,077)</u>	<u>(5,064,512)</u>	<u>(4,006,897)</u>
OTHER INCOME (EXPENSE):					
Foreign exchange gain (loss)	(714)	(358)	(488)	7,678	100
Interest income	35,666	2,740	93,463	6,053	93,340
Related party interest expense	-	(131,818)	(71,274)	(395,454)	(29,608)
TOTAL OTHER INCOME (EXPENSE)	<u>34,952</u>	<u>(129,436)</u>	<u>21,701</u>	<u>(381,723)</u>	<u>63,832</u>
LOSS BEFORE INCOME TAXES	<u>(1,765,386)</u>	<u>(1,013,121)</u>	<u>(4,532,376)</u>	<u>(5,446,235)</u>	<u>(3,943,065)</u>
INCOME TAX BENEFIT	<u>-</u>	<u>123,034</u>	<u>-</u>	<u>770,573</u>	<u>-</u>
LOSS FROM CONTINUING OPERATIONS	<u>(1,765,386)</u>	<u>(890,087)</u>	<u>(4,532,376)</u>	<u>(4,675,662)</u>	<u>(3,943,065)</u>
DISCONTINUED OPERATIONS:					
Income, net of taxes	-	1,418,286	484,642	2,486,096	-
Gain on disposal	-	-	1,636,938	-	-
TOTAL INCOME FROM DISCONTINUED OPERATIONS	<u>-</u>	<u>1,418,286</u>	<u>2,121,580</u>	<u>2,486,096</u>	<u>-</u>
NET INCOME (LOSS)	<u>(1,765,386)</u>	<u>528,199</u>	<u>(2,410,796)</u>	<u>(2,189,566)</u>	<u>(3,943,065)</u>
OTHER COMPREHENSIVE INCOME (LOSS):					
Unrealized gain (loss) on available-for-sale securities	(298,000)	(238,400)	(238,400)	89,400	(238,400)
COMPREHENSIVE INCOME (LOSS)	<u>\$ (2,063,386)</u>	<u>\$ 289,799</u>	<u>\$ (2,649,196)</u>	<u>\$ (2,100,166)</u>	<u>\$ (4,181,465)</u>
NET INCOME (LOSS) PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED:					
CONTINUING OPERATIONS	\$ (0.03)	\$ (0.01)	\$ (0.07)	\$ (0.08)	
DISCONTINUED OPERATIONS	-	0.02	0.03	0.04	
NET INCOME (LOSS) PER SHARE	<u>\$ (0.03)</u>	<u>\$ 0.01</u>	<u>\$ (0.04)</u>	<u>\$ (0.04)</u>	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>62,271,879</u>	<u>61,153,924</u>	<u>61,635,924</u>	<u>58,132,492</u>	

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended June 30,		From Inception of Exploration Stage November 9, 2011 Through June 30, 2012
	2012	2011	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (2,410,796)	\$ (2,189,566)	\$ (3,943,065)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation and amortization	179,321	1,255,702	42,859
Stock based compensation	370,000	893,686	328,000
Accretion of asset retirement obligation	4,262	(6,628)	4,262
Amortization of deferred financing cost with related party	15,909	20,455	15,909
Gain on lease of mineral rights	(75,000)	-	(75,000)
Gain on sale of discontinued operations	(1,636,938)	-	-
Loss on disposal of equipment	-	4,573	-
Deferred income taxes	-	(770,573)	-
Loss on disposal of assets held for sale	-	10,455	-
Changes in assets and liabilities:			
Accounts receivable	1,837,928	(1,662,973)	-
Materials and supplies inventory	1,577,703	(416,205)	-
Prepaid drilling service, prepaid expenses and other current assets, deposits and other assets	189,670	(42,962)	(210,142)
Accounts payable	(1,141,011)	(391,707)	455,836
Accrued expenses	(252,074)	(299,746)	144,859
Accrued payroll, benefits and taxes	(659,427)	325,169	49,584
Deferred revenue	(78,970)	83,950	-
Accrued interest on convertible note payable to related party	(41,667)	-	-
Receivable from sale of discontinued operations	-	-	1,657,625
Net cash used by operating activities	<u>(2,121,090)</u>	<u>(3,186,370)</u>	<u>(1,529,273)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of discontinued operations	8,000,000	-	-
Purchase of property, mineral rights and equipment	(560,000)	(912,214)	(526,000)
Change in restricted cash	(201,086)	(25,056)	(201,086)
Proceeds from sale of equipment	-	8,335	-
Proceeds from sale of assets held for sale	-	156,500	-
Change in investment in joint venture	-	(21,450)	-
Net cash provided (used) by investing activities	<u>7,238,914</u>	<u>(793,885)</u>	<u>(727,086)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on convertible note payable to related party	(5,000,000)	-	(5,000,000)
Payments on long term debt	(681,793)	(234,780)	-
Payments on capital leases	(346,908)	(239,378)	-
Proceeds from exercise of stock options	11,550	49,050	11,550
Proceeds from issuance of stock, net of stock offering costs	-	4,568,987	-
Payments on customer advances	-	(150,000)	-
Net cash provided (used) by financing activities	<u>(6,017,151)</u>	<u>3,993,879</u>	<u>(4,988,450)</u>
Net increase (decrease) in cash and cash equivalents	(899,327)	13,624	(7,244,809)
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	1,827,896	4,638,674	10,985,431
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 3,740,622</u>	<u>\$ 4,652,298</u>	<u>\$ 3,740,622</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
Available-for-sale securities received from lease of mineral rights	50,000	-	50,000
Long term debt issued for property, mineral rights and equipment purchase	-	41,600	-

See accompanying notes to consolidated financial statements.

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

NOTE 1 – ORGANIZATION AND DESCRIPTION OF BUSINESS:

Timberline Resources Corporation (“Timberline” or “the Company”) 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, the Company acquired Kettle Drilling, Inc. (“Kettle Drilling” or “Kettle”) 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, the Company 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, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company’s management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three and nine month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2012. All amounts presented are in U.S. dollars.

For further information refer to the financial statements and footnotes thereto in the Company’s Annual Report on Form 10-K for the year ended September 30, 2011.

b. *Exploration Stage Enterprise* – Following the sale of Timberline Drilling, the Company is now in the exploration stage of operation. Therefore, as of November 9, 2011, the Company’s financial statements are prepared in accordance with the provisions of ASC 915 *Development Stage Enterprises*, as it devotes substantially all of its efforts to acquiring and exploring mining interests that management believes should eventually provide sufficient net profits to sustain the Company’s existence. Until such interests are engaged in commercial production, the Company will continue to prepare its 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 June 30, 2012 and 2011, would be as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Stock options	6,711,500	6,634,833
Warrants	-	8,050,375
Convertible debt	-	3,333,333
Total possible dilution	<u>6,711,500</u>	<u>18,018,541</u>

At June 30, 2012 and 2011, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive.

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

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

- e. *Asset retirement obligation* – The Company accounts for asset retirement obligations by following the uniform methodology for accounting for estimated reclamation and abandonment costs as prescribed by authoritative accounting guidance. This guidance provides that the fair value of a liability for an asset retirement obligation (“ARO”) will be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The ARO is capitalized as part of the carrying value of the assets to which it is associated, and depreciated over the useful life of the asset. Adjustments are made to the liability for changes resulting from passage of time and changes to either the timing or amount of the original present value estimate underlying the obligation. The Company has an ARO associated with its exploration program at the Lookout Mountain exploration project (see Note 9).
- f. *New accounting pronouncements* – In January 2010, the Accounting Standards Codification (“ASC”) guidance for fair value measurements was updated to require additional disclosures related to movements of assets among Levels 1 and 2 of the three-tier fair value hierarchy. Also, a reconciliation of purchases, sales, issuance, and settlements of anything valued with a Level 3 method is required. Disclosure regarding fair value measurements for each class of assets and liabilities will be required. The updated guidance was adopted by the Company in its quarter ended December 31, 2009, except for disclosures about the activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Adoption of this updated guidance did not have a material impact on the Company’s consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”). This standard will require entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. The option to present items of other comprehensive income in the statement of changes in equity is eliminated. The new requirements are generally effective for public entities in fiscal years (including interim periods) beginning after December 15, 2011. Management does not believe adoption of this guidance will have a material effect on the Company’s 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 as of June 30, 2012 and September 30, 2011, and the fair value calculation input hierarchy level that we have determined applies to each asset and liability category.

	<u>June 30,</u> <u>2012</u>	<u>September 30,</u> <u>2011</u>	<u>Input</u> <u>Hierarchy</u> <u>Level</u>
Assets:			
Cash	\$ 3,740,622	\$ 1,827,896	Level 1
Restricted cash	639,422	438,336	Level 1
Available-for-sale securities	298,000	536,400	Level 2

NOTE 4 – INVESTMENT IN JOINT VENTURE:

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

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

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 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 the Company's contribution of property to BHJV), are distributed to Highland out of the proceeds from future mine production.

During the quarter ended June 30, 2012, the Company announced that it had signed a non-binding letter of intent to increase its ownership stake in the Butte Highlands Gold Project from 50-percent to 100-percent. The contemplated consideration in the non-binding letter of intent to acquire the remaining 50-percent interest includes common stock of the Company, the number of shares not to exceed 5% of Timberline's issued and outstanding shares of common stock as of the date of closing; a Net Smelter Royalty ("NSR") of 5% on gold production from Butte Highlands; and an unsecured, non-interest bearing promissory note to Highland Mining in the amount of \$6 million to be repaid no later than two years subsequent to the commencement of commercial production at Butte Highlands. In addition, Highland Mining will cancel its loan balance, including accrued interest, due from Butte Highlands JV, LLC pursuant to a promissory note dated July 22, 2009 for more than \$24-million of development costs incurred at the project to-date. The purchase is anticipated to close prior to September 30, 2012.

NOTE 5 – NOTE RECEIVABLE:

The Company has a \$1,350,000 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.

NOTE 6 – PREPAID DRILLING SERVICES:

The Company 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 the Company does not use the prepaid drilling services, to be provided by Timberline Drilling to the Company between November 2011 and November 2016.

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

	Nine months ended June 30, 2012	Year ended September 30, 2011
Beginning balance	\$ -	\$ -
Prepaid drilling services acquired	1,100,000	-
Prepaid drilling services used	(61,398)	-
Ending balance	<u>\$ 1,038,602</u>	<u>\$ -</u>

NOTE 7 – AVAILABLE-FOR-SALE SECURITIES:

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

	June 30, 2012	September 30, 2011
Cost	\$ 50,000	\$ 50,000
Unrealized Gain	248,000	486,400
Fair Value	<u>\$ 298,000</u>	<u>\$ 536,400</u>

Management has determined the best measure of RWMC fair value to be the bid price of RWMC stock as quoted by the market maker in the stock as of June 30, 2012 and September 30, 2011, which was \$0.10 and \$0.18 per share, respectively. RWMC is a related party to the Company (see Note 8).

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

NOTE 8 – RELATED PARTY TRANSACTIONS:

a. Juniper Resources, LLC

The Company had a convertible note payable to Juniper Resources, LLC, a company controlled by Ron Guill, a director. Information regarding the convertible note payable is as follows at June 30, 2012 and September 30, 2011:

	June 30, 2012	September 30, 2011
Juniper Resources, LLC	\$ <u> -</u>	\$ <u> 5,000,000</u>
Accrued interest on convertible note payable to Juniper Resources, LLC	\$ <u> -</u>	\$ <u> 41,667</u>

During the quarter ended December 31, 2011, subsequent to the Company’s sale of Timberline Drilling, Inc., the convertible note and all accrued interest was repaid in full and all related agreements were cancelled (see Note 13).

b. Butte Highlands Joint Venture Agreement

In 2009, the Company entered into the Operating Agreement with Highland, an entity controlled by Ron Guill, a director of the Company, to form a 50/50 joint venture for development and mining of the Company’s Butte Highlands Gold Project (see Note 4). Under the terms of the Operating Agreement, the Company contributed its Butte Highlands property to BHJV for a deemed value of \$2 million, and Highland contributed certain property and will fund all future mine development costs. Both the Company’s and Highland’s share of costs will be paid out of proceeds from future mine production.

Ron Guill, a director of the Company and an owner of Highland, is the manager of BHJV until such time as income in an amount equal to all mine development costs less \$2 million is distributed to Highland. At that time, a management committee, with equal representation from Highland and the Company, will be the manager of BHJV. Under the terms of the Operating Agreement, Highland will have preferential rights with respect to distributions until the investment by Highland is deemed equal to the investment by the Company.

At June 30, 2012 and September 30, 2011, the Company has a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$525,121 and \$97,626, respectively. This amount is included in prepaid expenses and other current assets on the consolidated balance sheets at June 30, 2012 and September 30, 2011.

During the quarter ended June 30, 2012, the Company announced that it has signed a non-binding letter of intent to increase its ownership stake in the Butte Highlands Gold Project from 50-percent to 100-percent (see Note 4).

c. Rae Wallace Mining Company

The Company is an affiliate of Rae Wallace Mining Company (“RWMC”), as it holds approximately 13% of the issued and outstanding stock of RWMC as of June 30, 2012 and September 30, 2011.

NOTE 9 – ASSET RETIREMENT OBLIGATION:

During the year ended September 30, 2011, the Company established an asset retirement obligation (“ARO”) in the amount of \$110,000 for its 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 the Company’s 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 the Company expects to pay the retirement obligation to the time it incurred the obligation, which is estimated at 10 years.

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NOTE 9 – ASSET RETIREMENT OBLIGATION, (continued):

The Company also had an ARO associated with the underground exploration program at the Butte Highlands Gold Project being performed by BHJV (see Note 4). The ARO resulted from the reclamation and remediation requirements of the Montana Department of Environmental Quality as outlined in the Company's permit to carry out the exploration program. During the year ended September 30, 2011, the Company's exploration permit was transferred to BHJV as the operator of the Butte Highlands Gold Project, thus relieving the Company of its reclamation and remediation obligations. Therefore, the ARO of \$250,089 and the related asset, along with accumulated accretion expense of \$12,504 associated with the Butte Highlands exploration program, were removed from the Company's financial statements during the year ended September 30, 2011.

The following table summarizes activity in the Company's ARO:

	Nine months ended		Year ended	
	June 30, 2012		September 30, 2011	
Beginning balance	\$	114,125	\$	259,467
Obligations incurred		-		110,000
Obligations released		-		(250,089)
Revision of previous accretion expense		-		(12,504)
Accretion expense		4,262		7,251
Ending balance	\$	<u>118,387</u>	\$	<u>114,125</u>

NOTE 10 – INCOME TAXES:

Significant components of income tax benefit during the three and nine months ended June 30, 2012 and 2011 are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Current:				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-
Discontinued operations	-	-	-	-
Total current income tax benefit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred:				
Federal	-	123,034	-	770,573
Total deferred income tax benefit	<u>-</u>	<u>123,034</u>	<u>-</u>	<u>770,573</u>
Total income tax benefit	<u>\$ -</u>	<u>\$ 123,034</u>	<u>\$ -</u>	<u>\$ 770,573</u>

The federal deferred income tax benefit during the three and nine months ended June 30, 2011 is realized in the Company's wholly owned subsidiary, BH Minerals USA, Inc., which is not consolidated with the federal income taxes of the remainder of the Company since BH Minerals USA, Inc. is wholly owned by the Company's wholly owned Canadian subsidiary, Staccato Gold Resources Ltd.

For the fiscal year ending September 30, 2012 the Company anticipates 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, including any taxable gain realized on the sale of Timberline Drilling (see Note 13).

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NOTE 11 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

Stock Issued for Services

During the three and nine months ended June 30, 2012 no shares of common stock were issued to employees of the Company as incentive bonuses under the Company’s Amended 2005 Equity Incentive Plan.

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

Warrants

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

	Warrants	Weighted Average Exercise Price
Outstanding at September 30, 2011	1,697,308	\$ 1.75
Issued	-	-
Exercised	-	-
Expired	(1,697,308)	(1.75)
Outstanding at June 30, 2012	-	\$

The warrants outstanding at September 30, 2011 expired unexercised on November 15, 2011.

Registered Direct Offering

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

Preferred Stock

Timberline is authorized to issue up to 10,000,000 shares of preferred stock, \$0.01 par value. The Board of Directors of Timberline 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 12 – STOCK OPTIONS:

The Company has established the Amended 2005 Equity Incentive Plan (as amended by shareholders of the Company on May 28, 2010) to authorize the granting of up to 10,000,000 stock options to employees, directors and consultants. Upon exercise of options, shares are issued from the available authorized shares of the Company. Option awards are granted with an exercise price equal to the fair market value of the Company’s stock at the date of grant.

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NOTE 12 – STOCK OPTIONS, (continued):

The fair value of option awards granted during the nine months ended June 30, 2012 and 2011 were estimated on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table.

	Nine months ended	
	June 30, 2012	June 30, 2011
Expected volatility	83.7-95.4%	112.9-113.0%
Weighted-average volatility	84.7%	112.9%
Expected dividends	-	-
Expected term (in years)	3	3
Risk-free rate	0.31-0.43%	1.12-1.29%
Expected forfeiture rate	0%	0%

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

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Salaries and benefits	\$ 195,000	\$ 7,000	\$ 224,000	\$ 468,132
Other general and administrative expenses	104,000	-	146,000	386,350
Total	<u>\$ 299,000</u>	<u>\$ 7,000</u>	<u>\$ 370,000</u>	<u>\$ 854,482</u>

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

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at September 30, 2011	6,412,333	\$ 1.01
Granted	1,350,000	0.51
Exercised	(398,333)	0.34
Expired and forfeited	<u>(652,500)</u>	<u>1.28</u>
Outstanding at June 30, 2012	<u>6,711,500</u>	<u>\$ 0.92</u>
Exercisable at June 30, 2012	<u>6,711,500</u>	<u>\$ 0.92</u>
Weighted average fair value of options granted during the nine months ended June 30, 2012		<u>\$ 0.27</u>
Unrecognized compensation expense related to options at June 30, 2012		<u>\$ -</u>
Average remaining contractual term of options exercisable at June 30, 2012 (years)		2.74
Average remaining contractual term of options outstanding at June 30, 2012 (years)		2.74

Of the options exercised during the nine months ended June 30, 2012, 363,333 were on a cashless basis resulting in the issuance of 127,527 shares based on the current price of the Company's stock on the date of exercise. The Company received \$11,550 from the exercise of the remaining 35,000 options. The aggregate intrinsic value of options exercised during the nine months ended June 30, 2012 and 2011 was \$74,750 and \$185,389, respectively. The aggregate of options both outstanding and exercisable as of June 30, 2012 had no intrinsic value.

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NOTE 13 – DISCONTINUED OPERATIONS:

Timberline Drilling

In September 2011, the Company announced that it had entered into a non-binding letter of intent to sell its wholly-owned subsidiary, Timberline Drilling. The results of operations for Timberline Drilling have been reported in discontinued operations for all periods presented. On November 9, 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, but does not anticipate income taxes to arise from the gain (see Note 10).

The \$1,350,000 note receivable is unsecured and subordinated and bears interest at 10% per annum, payable monthly, with the principal to be repaid on or before May 9, 2013 (see Note 5).

In conjunction with the sale of Timberline Drilling, the Company repaid its \$5,000,000 convertible note and all accrued interest outstanding to Juniper Resources, LLC, a company controlled by Ron Guill, a director of the Company (see Note 8).

During the quarter ended March 31, 2012, the working capital adjustment receivable of \$1,657,625 was paid by Timberline Drilling to the Company.

The following table details selected financial information for Timberline Drilling that is included in the income from discontinued operations in the consolidated statements of operations for the three and nine months ended June 30, 2012 and 2011:

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues	\$ -	\$ 8,619,303	\$ 3,173,633	\$ 21,618,995
Cost of revenues	-	(6,493,682)	(2,300,585)	(17,018,008)
Operating expenses	-	(680,478)	(372,437)	(1,917,737)
Interest and other income (expense)	-	(6,234)	188	(5,519)
Interest expense	-	(20,623)	(16,157)	(77,053)
Net income	-	1,418,286	484,642	2,600,678
Gain on disposal	-	-	1,636,938	-
Net income from discontinued operations	\$ -	\$ 1,418,286	\$ 2,121,580	\$ 2,600,678

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NOTE 13 – DISCONTINUED OPERATIONS, (continued):

The consolidated balance sheet of the Company has assets and liabilities held for sale from Timberline Drilling which were comprised of the following items at June 30, 2012 and September 30, 2011:

	June 30, 2012	September 30, 2011
Cash and cash equivalents	\$ -	\$ 2,812,053
Accounts receivable	-	2,016,998
Materials and supplies inventory	-	1,521,240
Prepaid expenses and other current assets	-	142,732
Total current assets held for sale	<u>\$ -</u>	<u>\$ 6,493,023</u>
Property and equipment, net	\$ -	\$ 5,931,544
Goodwill	-	2,808,524
Total non-current assets held for sale	<u>\$ -</u>	<u>\$ 8,740,068</u>
Accounts payable	\$ -	\$ 1,430,743
Accrued expenses	-	185,474
Accrued payroll, benefits and taxes	-	748,682
Current portion of long-term debt	-	285,895
Current portion of obligations under capital leases	-	126,203
Deferred revenue	-	78,970
Total current liabilities held for sale	<u>\$ -</u>	<u>\$ 2,855,967</u>
Long-term debt, net of current portion	\$ -	\$ 395,898
Obligations under capital leases, net of current portion	-	220,705
Total non-current liabilities held for sale	<u>\$ -</u>	<u>\$ 616,603</u>

World Wide Exploration

In September 2010, the Company ceased its drilling service operations in Mexico and moved all of the serviceable assets in Mexico to the United States for potential use. The results of operations for the Company's Mexican subsidiary, World Wide, have been reported in discontinued operations for all periods presented.

The following table details selected financial information included in the income from discontinued operations in the consolidated statements of operations for the three and nine months ended June 30, 2012 and 2011:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Revenues	\$ -	\$ -	\$ -	\$ -
Cost of revenues	-	-	-	-
Operating expenses	-	-	-	(113,692)
Foreign exchange gain (loss)	-	-	-	(893)
Interest income	-	-	-	3
Interest expense	-	-	-	-
Other income	-	-	-	-
Net loss from discontinued operations, net of tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (114,582)</u>

The consolidated balance sheet of the Company has assets held for sale from World Wide of zero and \$152,336 at June 30, 2012 and September 30, 2011, respectively. The balance of assets held for sale at September 30, 2011 consists of \$126,686 in materials and supplies inventory and \$25,650 in prepaid expenses and other assets. The sale of Timberline Drilling in November 2011 included its subsidiary, World Wide.

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NOTE 14 – COMMITMENTS:

Real Estate Lease Commitments

The Company has real estate lease commitments related to its main office in Coeur d'Alene, Idaho, facilities in Butte, Montana, Elko, Nevada and Eureka, Nevada.

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

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Mineral exploration expenses	\$ 11,100	\$ 3,600	\$ 18,300	\$ 10,800
Other general and administrative expenses	12,000	12,630	40,240	37,890
Total	<u>\$ 23,100</u>	<u>\$ 16,230</u>	<u>\$ 58,540</u>	<u>\$ 48,690</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.

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 its properties, plans related to its business and other matters that may occur in the future. These statements relate to analyses and other information that are based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. These statements include, but are not limited to, comments regarding:

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

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

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

This list is not exhaustive of the factors that may affect our forward-looking statements. Some of the important risks and uncertainties that could affect forward-looking statements are described further under the sections titled “Risk Factors”, “Description of Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended September 30, 2011, filed with the Securities and Exchange Commission (the “SEC”) on December 15, 2011. 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), the Company had no reported revenues and only had accumulated losses. In June 2010, the Company 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 in development under the terms of our 50/50 joint venture agreement with Highland and targeted to begin gold production in mid-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, and it is considered to be one of the largest remaining undeveloped gold properties in Nevada. The South Eureka Property is located within the southern portion of Nevada’s productive 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, 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, run of mine, 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 extents 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 quarter ended June 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.

In May 2012, we commenced infill drilling at the Lookout Mountain Project, with up to 25,000 feet of development drilling expected to be completed over the next few months. The current drilling program has multiple objectives, including enhancement of our confidence in the currently reported mineralization, acquisition of samples for metallurgical and geochemistry purposes, as well as hydrological analysis.

Butte Highlands Project, Montana

In conjunction with our joint venture partner, Highland, we continue to advance the Butte Highlands Gold Project toward an expected commencement of production in mid-2013, subject to receipt of necessary financing to complete development priorities, as discussed below. 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 was able to complete an initial mine plan and obtain 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.

The application for our HRO Permit was initially submitted 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. Subsequent to June 30, 2012 we received a notice of completeness for the MPDES Permit application from the MDEQ, and we expect to receive the MPDES Permit prior to the end of the calendar year.

During the quarter ended June 30, 2012, we resubmitted the application for a HRO Permit with additional information and responses to questions from the MDEQ arising from the initial application submission in 2010. Consequently, we are now expecting a notice of completeness from the DEQ regarding the HRO Permit in the third calendar quarter of 2012. With environmental baseline studies substantially complete, issuance of the HRO Permit is expected prior to the end of the second calendar quarter of 2013. Upon issuance of the HRO Permit, final development activities will commence, with production expected soon thereafter. We are also working with the United States Forest Service and the public to evaluate and permit a haulage route from the mine site.

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, and there is no certainty the proposed operations will be economically viable.

In April 2012, we signed a non-binding letter of intent to increase our ownership stake in the Butte Highlands gold project from 50-percent to 100-percent, acquiring the remaining interest from our joint venture partner, Highland. The non-binding letter of intent was then amended in May 2012. The purchase, which is subject to negotiation and execution of binding definitive documents and other ordinary and customary closing conditions for a transaction of this type, including regulatory approvals, is anticipated to close in the third calendar quarter of 2012. The consideration to be paid by us to acquire the remaining 50-percent interest is anticipated to include the issuance of shares of our common stock, not to exceed 5% of our issued and outstanding shares of common stock, at the time of closing; a Net Smelter Return (“NSR”) of 5% on all gold production from Butte Highlands, and a future cash payment to Highland of \$6 million to be made no later than two years subsequent to the commencement of commercial production at Butte Highlands. In addition, Highland will cancel its loan balance, including accrued interest, due from BHJV pursuant to a promissory note dated July 22, 2009 for more than \$24 million of development costs incurred at the project to-date. There is no assurance that the purchase of the remaining membership interests of BHJV from Highland will be completed by the third calendar quarter of 2012 or at all.

Our development priorities at the Butte Highlands Gold Project, in preparation for the anticipated commencement of operations in 2013 include:

- Successful issuance of MPDES Permit and HRO Permit;
- Installation of a second dewatering well and reverse osmosis water treatment plant;
- Completion of initial reporting to NI 43-101 standards;
- Continued underground development, both for production access and for an additional drill program to continue delineating mineralized zones to NI 43-101 standards;
- Evaluation and potential extraction of 10,000 ton bulk sample of mineralized material;
- Finalization of ore purchase agreement with a local milling facility.

We anticipate that the completion of our development priorities, up to the commencement of production, from the Butte Highlands Gold Project will require approximately \$10 to \$15 million in capital expenditures. We expect to fund this pre-production development through a combination of equity and/or debt financing.

Other Properties

In June 2012 we entered into two Exploration and Option to Purchase Agreements with Daycon Minerals Corporation (“Daycon”), a private Canadian corporation, for our Snowstorm Prospect as well as our Montana Copper-Silver Properties. Under the terms of the two agreements, Daycon has a five year option to purchase each property for \$1.5 million cash. We received a total of 500,000 shares of Daycon common stock upon execution of the two agreements, with potential stock to be issued under the two agreements of up to 2,400,000 shares of Daycon common stock. Daycon has agreed to make annual minimum exploration expenditure commitments of \$250,000 and \$200,000 on the Snowstorm Prospect and Montana Copper-Silver Properties, respectively, commencing in June 2014. Daycon is also responsible for a 3-percent NSR production royalty payable to Timberline, with a standard royalty buy down clause, on the Montana Copper-Silver Properties. We do not consider these agreements to be material to our business at this time.

During the quarter ended June 30, 2012, we also announced the acquisition from CIT Microprobe Holdings, LLC (California Institute of Technology) (“CIT”) of a large block of patented and unpatented mining claims comprising essentially the entire Seven Troughs gold mining district near Lovelock, Nevada. Terms of the purchase agreement included a cash payment of \$50,000 and a 2-percent NSR production royalty reserved to CIT, with a standard royalty buy down clause. We are under no obligation to make exploration expenditures at Seven Troughs and we do not consider the property to be material at this time.

Drilling Services

During the quarter ended December 31, 2011, we completed the sale of our drilling services subsidiary, Timberline Drilling, for total consideration of approximately \$15 million. The sale of Timberline Drilling allows us to concentrate on our core business of mineral exploration, with specific attention toward advancing our South Eureka Property and Butte Highlands Project, as described above.

Summary

We believe the global economic environment and monetary situation 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 Gold Project toward expected gold production in mid-2013, subject to receipt of the necessary permits and financing to complete development priorities, 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 base to evaluate opportunities – either organically or through mergers and acquisitions – and we continue to do so.

Results of Operations for the Three and Nine Month Periods ended June 30, 2012 and 2011

Consolidated Results

(\$US)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Exploration expenses :				
South Eureka/Lookout Mountain	\$ 1,007,565	\$ 344,158	\$ 2,224,618	\$ 2,357,789
Butte Highlands	-	-	13,953	37,492
Other exploration properties	147,468	136,838	425,661	370,804
Total exploration expenditures	1,155,033	480,962	2,664,232	2,766,085
Non-cash expenses:				
Stock option and stock issuance expense	299,000	7,000	370,000	893,686
Depreciation, amortization and accretion	13,108	12,732	47,120	15,346
Total non-cash expenses	312,108	19,732	417,120	909,032
Professional fees expense	57,612	22,578	246,440	217,097
Interest expense	-	131,818	71,274	395,454
Interest and other income	(109,952)	(2,382)	(167,975)	(13,731)
Other general and administrative expenses	350,585	360,379	1,301,285	1,172,298
Income tax benefit	-	(123,034)	-	(770,573)
Net loss from continuing operations	\$ (1,765,386)	\$ (890,087)	\$ (4,532,376)	\$ (4,675,662)
Income from discontinued operations	-	1,418,286	2,121,580	2,486,096
Net income (loss)	\$ (1,765,386)	\$ 528,199	\$ (2,410,796)	\$ (2,189,566)

Our consolidated net loss for the three months ended June 30, 2012 was \$1,765,386 compared to a consolidated net income of \$528,199 for the three months ended June 30, 2011. The year over year difference is primarily attributable to the absence of income from our subsidiary, Timberline Drilling, which was sold in November 2011 as well as increased exploration expenses and higher stock option expense during the quarter ended June 30, 2012. Our exploration expenses at South Eureka were higher in the quarter ended June 30, 2012 as compared to the same quarter in 2011 primarily due to commencing significant exploration work earlier in the 2012 quarter.

Our consolidated net loss for the nine months ended June 30, 2012 was \$2,410,796 compared to a consolidated net loss of \$2,189,566 for the nine months ended June 30, 2011. The year over year increase in net loss during the year to date is primarily due to reduced income from our discontinued drilling service operations and the absence of an income tax benefit in the current period, offset somewhat by lower stock option expenses and higher interest and other income. Interest expense for the quarter and year to date ended June 30, 2012 was less than the comparative periods in the previous year as we repaid our outstanding \$5 million convertible debt during the quarter ended December 31, 2011.

The income tax benefit during the three and nine months ended June 30, 2011 arose as a result of a reduction in deferred income tax liabilities assumed upon the acquisition of Staccato Gold Resources Ltd.

Discontinued Operations - Timberline Drilling and World Wide Exploration

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 to us 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.

During the quarter ended March 31, 2012, the working capital adjustment receivable of \$1,657,625 was paid to us by Timberline Drilling.

During the year ended September 30, 2010, due to declining operational and financial results, we decided to cease the operations of Timberline Drilling's wholly-owned Mexican subsidiary, World Wide. World Wide's drill rigs and related assets were moved back to the U.S. where they were available for use by Timberline Drilling. The sale of Timberline Drilling in November 2011 included our subsidiary, World Wide.

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

(\$US)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues	\$ -	\$ 8,619,303	\$ 3,173,633	\$ 21,618,995
Cost of revenues	-	(6,493,682)	(2,300,585)	(17,018,008)
Operating expenses	-	(680,478)	(372,437)	(2,031,429)
Interest and other income (expense)	-	(6,234)	188	(6,412)
Interest expense	-	(20,623)	(16,157)	(77,050)
Net income	\$ -	\$ 1,418,286	\$ 484,642	\$ 2,486,096
Gain on disposal	-	-	1,636,938	-
Income from discontinued operations	\$ -	\$ 1,418,286	\$ 2,121,580	\$ 2,486,096

Financial Condition and Liquidity

At June 30, 2012, we had assets of \$22,056,409 consisting of cash in the amount of \$3,740,622; property, mineral rights and equipment, net of depreciation of \$13,586,233; a note receivable of \$1,350,000, and other assets in the amount of \$3,379,554.

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

At June 30, 2012, we had a working capital surplus of \$4,670,977. As of the date of filing of this report, we have no outstanding debt and a cash balance of approximately \$2.5 million.

In April 2012, we signed a non-binding letter of intent to increase our ownership stake in the Butte Highlands Gold Project from 50-percent to 100-percent, acquiring the remaining interest from our joint venture partner, Highland, as described in more detail above. This non-binding letter of intent was revised in May 2012, as described in more detail above. We anticipate that we will require an additional \$10 million to \$15 million in available capital to fund the development priorities at the Butte Highlands Gold Project, as described above; \$2.5 million to continue our planned exploration program on our South Eureka property, and \$1.5 million for general and administrative expenses.

Our current working capital is not sufficient to meet the requirements of our current plan of operations for the next 12 months, and we will require additional financing to continue our operations as currently planned. We anticipate meeting our additional capital needs through equity and/or debt financings. Such additional capital may not be available to us on acceptable terms or at all. If we are unable to raise sufficient capital, we may be required to cut back on planned development and exploration expenses, and/or reduce general and administrative expenses.

Management expects to closely monitor discretionary exploration expenditures and professional and consulting expenses over the next 12 months, while potentially exploring additional financing through sales of equity securities and/or debt.

We plan to close the acquisition of Highland's interest in the Butte Highlands Gold Project and, if and when such acquisition is completed, to complete development of the Butte Highlands Gold Project and commence production. We also plan to continue exploration programs on our material exploration properties and to seek additional acquisition opportunities.

As a result of our current cash balance, our ability to delay development at the Butte Highlands Gold Project, and curtail discretionary exploration expenditures as needed, management believes that it has sufficient working capital to meet our ongoing operating expenses for the next 12 months. Additional financing will be required for us to fully implement our current plan of operations.

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 elsewhere 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 adjustment to the value assigned to mineral properties.

We review the carrying value of equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from 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 of 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 adequately designed and effective in ensuring that: (i) information required to be disclosed by the Company in reports that it files or submits to the 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

Except as set forth 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, 2011 which was filed with the SEC on December 15, 2011.

We will require additional financing to continue development of the Butte Highlands Gold Project to production.

In April 2012, we signed a non-binding letter of intent to increase our ownership stake in the Butte Highlands Gold Project from 50-percent to 100-percent, acquiring the remaining interest from our joint venture partner, Highland Mining LLC. The non-binding letter of intent was revised in May 2012. Our current working capital is not sufficient to complete development of the project. Therefore, we expect that we will require additional financing in order to develop the project to production. We anticipate meeting our additional capital needs through equity and/or debt financings. Such additional capital may not be available to us on acceptable terms or at all. If we are unable to raise sufficient capital, we may be required to cut back or delay planned development at the project.

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

None.

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 June 30, 2012, 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, 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: August 10, 2012

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
(Principal Financial Officer)

Date: August 10, 2012

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: August 10, 2012

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: August 10, 2012

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 June 30, 2012, 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: August 10, 2012

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 June 30, 2012, 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: August 10, 2012

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.