

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

FORM 10-Q

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number: 001-34055



TIMBERLINE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

82-0291227

(State of other jurisdiction of incorporation or organization)

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

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

83814

(Address of Principal Executive Offices)

(Zip Code)

(208) 664-4859

(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of issuer's common stock outstanding at February 11, 2016: 13,331,946

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PART I — FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES

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TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015 (unaudited)	September 30, 2015 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 42,952	\$ 500,965
Prepaid expenses and other current assets	15,058	23,589
Joint venture receivable	5,761	5,761
TOTAL CURRENT ASSETS	<u>63,771</u>	<u>530,315</u>
 PROPERTY, MINERAL RIGHTS AND EQUIPMENT	 <u>15,305,278</u>	 <u>15,277,257</u>
 OTHER ASSETS:		
Investment in joint venture	642,450	642,450
Restricted cash	756,657	764,662
Deposits and other assets	9,750	9,750
TOTAL OTHER ASSETS	<u>1,408,857</u>	<u>1,416,862</u>
 TOTAL ASSETS	 <u>\$ 16,777,906</u>	 <u>\$ 17,224,434</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 231,321	\$ 219,474
Accrued expenses	275,000	313,048
Accrued payroll, benefits and taxes	140,920	130,965
TOTAL CURRENT LIABILITIES	<u>647,241</u>	<u>663,487</u>
 LONG-TERM LIABILITIES:		
Asset retirement obligation	140,391	138,720
TOTAL LONG-TERM LIABILITIES	<u>140,391</u>	<u>138,720</u>
 COMMITMENTS (Notes 4 and 9)	 -	 -
 STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$0.001 par value; 200,000,000 shares authorized, 13,331,946 and 13,331,946 shares issued and outstanding, respectively	13,332	13,332
Additional paid-in capital	65,896,483	65,544,517
Accumulated deficit	(49,919,541)	(49,135,622)
TOTAL STOCKHOLDERS' EQUITY	<u>15,990,274</u>	<u>16,422,227</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 16,777,906</u>	 <u>\$ 17,224,434</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended December 31,	
	2015	2014
OPERATING EXPENSES:		
Mineral exploration expenses	\$ 138,687	\$ 242,320
Salaries and benefits	504,035	200,447
Professional fees expense	106,044	89,078
Insurance expense	22,771	21,211
Other general and administrative expenses	36,523	136,283
TOTAL OPERATING EXPENSES	<u>808,060</u>	<u>689,339</u>
LOSS FROM OPERATIONS	<u>(808,060)</u>	<u>(689,339)</u>
OTHER INCOME (EXPENSE):		
Foreign exchange gain/(loss)	92	535
Miscellaneous other income	24,049	119
TOTAL OTHER INCOME (EXPENSE)	<u>24,141</u>	<u>654</u>
LOSS BEFORE INCOME TAXES	(783,919)	(688,685)
INCOME TAX EXPENSE	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (783,919)</u>	<u>\$ (688,685)</u>
NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED	<u>\$ (0.06)</u>	<u>\$ (0.07)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	<u>13,331,946</u>	<u>9,898,273</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (783,919)	\$ (688,685)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	1,979	1,980
Stock based compensation	351,966	109,500
Accretion of asset retirement obligation	1,671	1,592
Changes in operating assets and liabilities:		
Prepaid drilling services, prepaid expenses and other current assets, deposits and other assets	8,531	(79,063)
Joint venture receivable	-	9,680
Accounts payable	11,847	69,354
Accrued expenses	(38,048)	(133,419)
Accrued payroll, benefits and taxes	9,955	-
Net cash used by operating activities	<u>(436,018)</u>	<u>(709,061)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, mineral rights and equipment	(30,000)	(29,000)
Proceeds from sale of property, mineral rights and equipment	-	8,500
Refund of reclamation bond	8,005	-
Net cash provided (used) by investing activities	<u>(21,995)</u>	<u>(20,500)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents	(458,013)	(729,561)
CASH AT BEGINNING OF PERIOD	500,965	2,825,320
CASH AT END OF PERIOD	<u>\$ 42,952</u>	<u>\$ 2,095,759</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common stock issued for common stock payable	-	80,000

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 solely a mineral exploration enterprise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. *Basis of Presentation and Going Concern* – The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of our management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2016. All amounts presented are in U.S. dollars. For further information refer to the financial statements and footnotes thereto in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

The consolidated financial statements for the three months ended December 31, 2015 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 operations 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. *Net Income (Loss) per Share* – Basic earnings per share (“EPS”) is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities.

The dilutive effect of convertible and outstanding securities, in periods of future income as of December 31, 2015 and 2014, would be as follows:

	<u>2015</u>	<u>2014</u>
Stock options	577,615	568,334
Stock unit awards	675,000	-
Warrants	12,500	25,000
Total possible dilution	<u>1,265,115</u>	<u>593,334</u>

At December 31, 2015 and 2014, the effect of the Company’s outstanding options and common stock equivalents would have been anti-dilutive.

- c. *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.

NOTE 3 – FAIR VALUE MEASUREMENTS:

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

	<u>December 31,</u> <u>2015</u>	<u>September 30,</u> <u>2015</u>	<u>Input</u> <u>Hierarchy</u> <u>Level</u>
Assets:			
Cash	\$ 42,952	\$ 500,965	Level 1
Restricted cash	756,657	764,662	Level 1

NOTE 4 – ENTRY INTO PROPERTY OPTION AGREEMENT:

On March 12, 2015 (the “Effective Date”), we entered into a property option agreement (“Agreement”) with Gunpoint Exploration Ltd. (“Gunpoint”), which closed on March 31, 2015. Gunpoint granted us an exclusive and irrevocable option (“Option”) to purchase a 100% interest in Gunpoint’s Talapoosa project (the “Project”) in western Nevada. Pursuant to the Agreement, we have the right to exercise the Option at any time beginning on March 31, 2015 and ending within thirty (30) months of March 12, 2015, unless sooner terminated (“Option Period”).

As consideration for the Option, we agreed to issue two million (2,000,000) shares of common stock and pay \$300,000 in cash. A \$100,000 cash payment was made on March 31, 2015. The common stock was valued at fair value on the Effective Date and capitalized with the cash payment of \$100,000 for a total of \$1,300,000. The remaining \$200,000 cash payment was paid on September 23, 2015. The common stock was issued on March 31, 2015 and is being held in escrow. The shares are irrevocable and will be released to Gunpoint as follows: 25% on September 12, 2015; 25% on March 12, 2016; 25% on September 12, 2016; and 25% on March 12, 2017. Gunpoint will receive the total of 2,000,000 shares even if the Company does not exercise the Option.

At any time during the Option Period, we may purchase 100% of Talapoosa by providing written notification thereof and paying to Gunpoint \$10 million in cash (the “Option Payment”) within ninety (90) days of the notification date. Upon the date that Gunpoint receives the Option Payment (the “Closing Date”), we will have earned a 100% interest in the Project.

For a period of five years following the Closing Date (“Contingent Payment Period”), should the daily price of gold (as determined by the London PM Fix) be fixed at or above \$1,600 per ounce, on any single day during the Contingent Payment Period (the “Initial Threshold Event”) and at any time after the Initial Threshold Event during the Contingent Payment Period the daily price of gold (as determined by the London PM Fix) averages U.S.\$1,600 per ounce or greater for a period of ninety (90) consecutive trading days (the “Trigger Event”), we shall be required to pay or cause to be paid to Gunpoint an additional payment of \$10 million (the “Contingent Payment”) within ninety (90) days of the date that the Trigger Event is deemed to have occurred. The Contingent Payment shall consist of \$5 million in cash, and the remainder shall be paid either in cash or in shares of our common stock or a combination thereof at our sole discretion.

Following our exercise of the Option, effective as of the Closing Date, Gunpoint reserves a net smelter returns royalty in all minerals mined and removed from the Project, in the amount of one percent (1%). We may purchase the royalty from Gunpoint at any time for a cash payment of \$3 million.

NOTE 5 – INVESTMENT IN JOINT VENTURE:

In July 2009, we entered into a joint venture operating agreement (the “Agreement”) with Highland Mining, LLC (“Highland”). The joint venture entity, Butte Highlands JV, LLC (“BHJV”) was created for the purpose of developing and mining the Butte Highlands Gold Project. As a result of our contribution of our 100% interest in the Butte Highlands Gold Project, carried on our balance sheet at cost, we hold a 50% interest in BHJV. Under terms of the Agreement, our interest in BHJV will be carried to production by Highland, which will fund all future project exploration and mine development costs.

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

On January 29, 2016, we executed a Member Interest Purchase Agreement (the “Purchase Agreement”) with New Jersey Mining Company (“NJMC”) pursuant to which we sold all of our 50% interest in the Butte Highlands, JV, LLC (the “JV Interest”). See Note 10 – Subsequent Events.

At December 31, 2015 and September 30, 2015, we have a receivable from BHJV for expenses incurred on behalf of BHJV in the amount of \$5,761 and \$5,761, respectively.

NOTE 6 – PREPAID DRILLING SERVICES:

During the year ended September 30, 2012, we obtained \$1,100,000 in prepaid drilling services as a portion of the consideration received from the sale of Timberline Drilling. The prepayment amount represented discounts on future drilling services, or cash if we did not use the prepaid drilling services, to be provided by Timberline Drilling to us between November 2011 and November 2016. During the year ended September 30, 2014, we accepted \$150,000 as settlement of the portion of the prepaid drilling services that was due to be paid to the Company in November 2014 (\$220,000). During the year ended September 30, 2015, we used \$75,685 in drilling services, and we accepted \$275,000 as a settlement of the remaining portion of prepaid drilling services that was due to be paid to the Company in November 2015 (\$144,315) and November 2016 (\$220,000), resulting in an \$89,315 loss on settlement of prepaid drilling services. As of September 30, 2015 and at December 31, 2015, the balance of the prepaid drilling services is nil.

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

	Year ended September 30, 2015	
Beginning balance	\$	440,000
Cash received in lieu of drilling services		(275,000)
Loss on settlement of prepaid drilling services		(89,315)
Prepaid drilling services used		(75,685)
Less current portion		-
Ending balance	\$	<u>-</u>

NOTE 7 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

Private Placement

In September 2015, we closed a private placement of our common stock. We sold 1,331,861 shares of common stock at a price of \$0.375 per share for gross proceeds of \$499,448.

Stock Issued for Mineral Rights, Property and Equipment

In October, 2014, pursuant to a mineral property lease and option agreement for mineral claims, we issued 83,334 restricted common shares with a value of \$80,000 based upon the closing price of our shares of common stock on the date of issuance as quoted on the NYSE MKT. The value of these shares was listed as common stock payable on September 30, 2014.

Stock Issued for Property Option Agreement

On March 31, 2015, pursuant to a property option agreement (Note 4), we issued 2,000,000 restricted common shares with a value of \$1,200,000 based upon the closing price of our shares of common stock as quoted on the NYSE MKT on March 12, 2015, the effective date of the property option agreement.

Stock Issued for Compensation

On January 27, 2015, we issued 100,000 restricted common shares for employee compensation. The shares were valued at \$69,000 based upon the closing price of our shares of common stock on the date of issuance as quoted on the NYSE MKT.

Warrants

We issued 25,000 warrants during the year ended September 30, 2013 in connection with our public offerings. 12,500 of the warrants are exercisable on a cashless basis, at the holders' option, for a two-year term commencing December 26, 2013. The remaining 12,500 warrants are exercisable on a cashless basis, at the holders' option, for a two-year term commencing September 10, 2014. No warrants were issued during the three months ended December 31, 2015 or the year ended September 30, 2015, and no warrants were exercised or expired during the year ended September 30, 2015. 12,500 warrants expired during the three months ended December 31, 2015. There are 12,500 warrants remaining that expire on September 9, 2016.

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 8 – STOCK-BASED AWARDS:

During the year ended September 30, 2015 our Board of Directors adopted and our stockholders approved the adoption of the Company's 2015 Stock and Incentive Plan. This plan replaces our 2005 Equity Incentive Plan, as amended. The aggregate number of shares that may be issued to employees, directors, and consultants under all stock-based awards made under the 2015 Stock and Incentive Plan is 4 million shares of our common stock. Upon exercise of stock-based awards, shares are issued from the available authorized shares of the Company. Option awards are granted with an exercise price equal to the fair value of our stock at the date of grant.

The 2005 Equity Incentive Plan, as amended, terminated on May 28, 2015 and no stock or option awards may be granted under this plan after it was terminated. 533,778 stock options remain outstanding and may be exercised under the 2005 Equity Incentive Plan, as amended.

During the three months ended December 31, 2015, 43,837 stock options and 675,000 stock unit awards were granted to certain employees by the Company's Board of Directors and vested immediately. Stock unit awards are awards granted under the Company's 2015 Stock and Incentive Plan which are payable in common shares of the Company upon the occurrence of certain events, achievement of certain milestones, or at a future date. Total compensation cost of options and stock unit awards for employees was \$351,966 and \$55,500 for the three months ended December 31, 2015 and 2014 respectively. These costs are classified under salaries and benefits expense. The fair value of the stock unit awards was determined by the closing price of the Company's common stock on the NYSE MKT on the grant date. The fair value of the option awards was estimated on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table:

	October 6, 2015
Expected volatility	110.4%
Stock price on date of grant	\$0.50
Expected dividends	-
Expected term (in years)	3
Risk-free rate	0.90%
Expected forfeiture rate	0%

The following is a summary of our options issued under the Amended 2005 Equity Incentive Plan and the 2015 Stock and Incentive Plan:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at September 30, 2015	533,778	\$ 2.48
Granted	43,837	0.50
Exercised	-	-
Expired	-	-
Outstanding at December 31, 2015	<u>577,615</u>	<u>\$ 2.33</u>
Exercisable at December 31, 2015	<u>577,615</u>	<u>\$ 2.33</u>
Weighted average fair value of options granted during the three months ended December 31, 2015		<u>\$ 0.33</u>
Unrecognized compensation expense related to options at December 31, 2015		<u>\$ -</u>
Average remaining contractual term of options outstanding and exercisable at December 31, 2015 (years)		
Outstanding		3.31
Exercisable		<u>3.31</u>

The aggregate of options exercisable as of December 31, 2015 had an intrinsic value of nil based on the closing price of \$0.17 per share of our common stock on December 31, 2015.

NOTE 9 – COMMITMENTS:

Real Estate Lease Commitments

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

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

	Three months ended December 31,	
	<u>2015</u>	<u>2014</u>
Mineral exploration expenses	\$ 16,050	\$ 3,900
Other general and administrative expenses	10,500	10,500
Total	<u>\$ 26,550</u>	<u>\$ 14,400</u>

Employment Agreements

The Company has employment agreements with various executive employees that require certain termination benefits and payments in defined circumstances.

NOTE 10 – SUBSEQUENT EVENTS:

Sale of our Interest in Butte Highlands JV, LLC

Subsequent to the quarter ended December 31, 2015, we decided to sell our interest in the Butte Highlands Joint Venture (See Note 5). On January 29, 2016, we executed a Member Interest Purchase Agreement (the “Purchase Agreement”) with New Jersey Mining Company (“NJMC”) pursuant to which we sold all of our 50% interest in the Butte Highlands, JV, LLC (the “JV Interest”).

Pursuant to the Purchase Agreement, the parties agreed that consideration for the JV Interest consisted of, (i) two hundred and twenty-five thousand dollars (\$225,000) and (ii) three million (3,000,000) restricted shares of New Jersey (“New Jersey Shares”). \$50,000 of the cash consideration was paid on January 25, 2016 with the remaining \$175,000 of the cash consideration and the New Jersey Shares paid at closing, which occurred on January 29, 2016. The total value of the consideration at the closing date was \$447,900.

Management Changes

On December 21, 2015, the Board of Directors of the Company received a letter of resignation from Mr. Kiran Patankar, pursuant to which Mr. Patankar resigned as Chief Executive Officer and President of the Company effective January 20, 2016. Mr. Patankar claimed in his letter to the Board that his resignation was for “good reason” as set forth in Mr. Patankar’s employment agreement dated August 28, 2015. As such, Mr. Patankar would be owed severance payments by the Company as set forth in the agreement. The Company’s Board disagrees with Mr. Patankar’s characterization of the resignation. On January 19, 2016, the Board dismissed effective immediately Mr. Kiran Patankar as President and Chief Executive Officer of the Company.

No amounts have been accrued in the Company’s financial statements as of December 31, 2015 for severance benefits or claims.

Effective January 19, 2016, the Board accepted the resignation of Mr. Randal Hardy as Chief Financial Officer of the Company. In connection with Mr. Hardy’s resignation, Mr. Hardy has agreed to waive his rights to severance under his employment agreement in exchange for the issuance of 100,000 Stock Units (or equivalent equity securities) of the Company and continuation of his health benefits under the terms of his former employment agreement. Both Mr. Hardy and the Company have agreed to waive any and all claims they have against each other in relation to Mr. Hardy’s employment as Chief Financial Officer and his resignation from that office.

Effective January 19, 2016, the Board appointed Mr. Steven A. Osterberg to serve as the Company’s President and Chief Executive Officer and a director of the Company. Mr. Osterberg’s compensation will not be altered or amended in relation to his appointment as President & CEO or as a director.

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

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

Forward-Looking Statements

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

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

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

- risks related to our limited operating history;
- risks related to our ability to continue as a going concern;
- risks related to our history of losses and our expectation of continued losses;
- risks related to our properties being in the exploration or, if warranted, development stage;
- risks related to our bringing our projects into production;
- risks related to our mineral operations being subject to government regulation;
- risks related to future legislation and administrative changes to mining laws;
- risks related to future legislation regarding climate change
- risks related to our ability to obtain additional capital to develop our reserves, if any;
- risks related to land reclamation requirements and costs;
- risks related to mineral exploration and development activities being inherently dangerous;
- risks related to our insurance coverage for operating risks;
- risks related to cost increases for our exploration and development projects;
- risks related to a shortage of equipment and supplies adversely affecting our ability to operate;
- risks related to mineral estimates;
- risks related to the fluctuation of prices for precious and base metals, such as gold, silver and copper;
- risks related to the competitive industry of mineral exploration;
- risks related to our title and rights in our mineral properties;
- risks related to integration issues with acquisitions;

- risks related to joint ventures and partnerships;
- risks related to potential conflicts of interest with our management;
- risks related to our dependence on key management;
- risks related to our Talapoosa Project, Lookout Mountain and other acquired growth projects;
- risks related to our business model;
- risks related to our acquisition of Wolfpack Gold Corp.;
- risks related to our acquisition of the Talapoosa option;
- risks related to evolving corporate governance standards for public companies;
- 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, 2015, filed with the Securities and Exchange Commission (the “SEC”) on December 29, 2015. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, believed, estimated or expected. We caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, except as otherwise required by law.

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

Corporate Background and History

We became an exploration-stage company in January 2004 with the change in the management of the Company. From January 2004 until March 2006, we were strictly a mineral exploration company. With our acquisition of a drilling services company and the acquisition of the Butte Highlands Gold Project, we diversified our business plan to include drilling services and an exploration property with the potential to develop an underground mine with possible future gold production. Prior to the purchase of Timberline Drilling (formerly known as Kettle Drilling), we had no reported revenues and only had accumulated losses. In June 2010, we acquired Staccato Gold Resources Ltd. (“Staccato”), a Canadian-based resource company listed on the TSX Venture Exchange that was in the business of acquiring, exploring and developing mineral properties with a focus on gold exploration in the dominant gold producing trends in Nevada. As a result of this acquisition, we obtained Staccato’s Eureka Property, which included their flagship gold exploration project, the Lookout Mountain Project (“Lookout Mountain”) and the Windfall project, along with 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 the advanced Talapoosa project and our Eureka project in Nevada.

Recent Events

On March 12, 2015 (the “Effective Date”), we entered into a property option agreement (“Agreement”) with Gunpoint Exploration Ltd. (“Gunpoint”), which closed on March 31, 2015. Gunpoint granted us an exclusive and irrevocable option (“Option”) to purchase a 100% interest in Gunpoint’s Talapoosa project (the “Project”) in western Nevada. Pursuant to the Agreement, we have the right to exercise the Option at any time beginning on March 31, 2015 and ending within thirty (30) months of March 12, 2015, unless sooner terminated (“Option Period”). (See Note 4 to the Consolidated Financial Statements for further details of the transaction.)

On January 19, 2016, the Board of Directors of the Company dismissed effective immediately Mr. Kiran Patankar as President and Chief Executive Officer of the Company. Effective January 19, 2016, the Board of Directors of the Company accepted the resignation of Mr. Randal Hardy as Chief Financial Officer of the Company. Effective January 19, 2016, the Board of Directors of the Company appointed Mr. Steven A. Osterberg to serve as the Company's President and Chief Executive Officer and a director of the Company. (See Note 10 to the Consolidated Financial Statements for further details.)

On January 29, 2016, we executed a Member Interest Purchase Agreement (the "Purchase Agreement") with New Jersey Mining Company ("NJMC") pursuant to which we sold all of our 50% interest in the Butte Highlands, JV, LLC (the "JV Interest"). (See Note 10 to the Consolidated Financial Statements for further details of the transaction.)

Mineral Exploration

Talapoosa, Nevada

Talapoosa is a 14,870 acre district-scale property comprising US Bureau of Land Management ("BLM") claims, fee lands, and water rights. Mineralized material at Talapoosa consists of 42.5 million tons of in place bulk tonnage with an average grade of 0.03 ounces of gold per ton and 0.37 ounces of silver per ton. The project was fully permitted by Miramar Mining Corporation with the BLM and the State of Nevada in 1996, but remained undeveloped due to low prevailing metals prices. The deposit is open on strike, and we believe potential exists to expand the quantity of mineralized material with additional exploration. The acquisition includes the 4 mile-long Appaloosa zone located one mile to the north of and parallel to the Talapoosa mineralized area. The Appaloosa zone outcrops as epithermal-type sinter and breccia with vein fragments and is untested but for six historic, shallow drill holes.

In March, 2015, we completed a National Instrument 43-101 ("NI 43-101") compliant Technical Report entitled "Technical Report and Resource Estimate on the Talapoosa Project, Nevada," dated March 24, 2015 (the "Talapoosa Technical Report") substantiating the mineralization for the Talapoosa project. Upon completion of the Talapoosa Technical Report, we initiated an NI 43-101 Preliminary Economic Assessment ("PEA") on the property. Results of the PEA were released on April 27, 2015 and reported positive results on a potential open pit mine with heap leach processing and Merrill Crowe recovery of gold and silver. To support the PEA, we completed due diligence reviews on the gold and silver mineralization; historic studies including metallurgy, geotechnical pit wall stability, hydrology, geochemistry, mining methods, and facility siting for the previously proposed operation.

Follow-up work is planned to include additional metallurgical studies, drilling for additional samples and to increase our level of confidence for certain parts of the mineralized zone, and initiation of studies to update historic permits to current standards. Subject to sufficient financing, these activities are expected to be incorporated into a NI 43-101 compliant Preliminary Feasibility Study by the end of 2016.

There are no proven and probable reserves as defined under United States Securities and Exchange Commission's Industry Guide 7 ("Guide 7") at Talapoosa and our activities there remain exploratory in nature.

Cautionary Note to U.S. Investors: The Talapoosa Technical Report and the PEA use the terms "mineral resource," "measured mineral resource," "indicated mineral resource" and "inferred mineral resource". We advise investors that these terms are defined in and required to be disclosed by Canadian regulations (NI 43-101); however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. 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 Talapoosa Technical Report and the PEA in this Quarterly Report on Form 10-Q for informational purposes only and the Technical Report and PEA are 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.

Eureka Project, Nevada

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

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

Cautionary Note to U.S. Investors: The Lookout Mountain 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 Canadian regulations (NI 43-101); however, these terms are not defined terms under Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. 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 Lookout Mountain Technical Report in this Quarterly Report on Form 10-Q for informational purposes only and the Lookout Mountain 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 Lookout Mountain 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 using geostatistics to aid in the establishment of estimation parameters, and interpolating grades into a three-dimensional block model.

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

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

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

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

In follow-up to the successful results in RC drill hole BHSE-171, two diamond drill core holes were completed in January, 2015. BHSE-172 intersected 25.2 feet of 0.15 opt (7.7 m of 5.02 g/t) within an interval of 46.6 feet of 0.10 opt (14.2 m of 5.02 g/t). BHSE-173 intercepted 57.4 feet of 0.06 opt (17.5 m @ 1.92 g/t). The two core hole intercepts of the mineralized zone were offset approximately 140 feet from BHSE-171. The intercepts are well-correlated, as the gold occurs in mineralized collapse breccia within the pyritic Dunderberg Shale-Hamburg Dolomite contact zone. The intercepts are thought by Timberline geologists to be related to a higher grade feeder system as recognized in many Carlin-type systems.

Two additional RC holes were completed as infill drilling within the existing resource area at Lookout Mountain. Results were highlighted by hole BHSE-174 which intercepted 75.0 feet of 0.02 opt (22.9 m of 0.57 g/t) which is very consistent with surrounding intercepts.

We also completed a six-hole RC drill program on the Windfall target within the Eureka project. The drilling successfully tested on-strike, offset, and down-dip extensions of gold mineralization that was previously mined at Windfall. Six drill holes completed over a strike length of approximately 3,000 feet intersected gold mineralization consistent with results from over 600 historic drill holes, highlighted by BHWF-40 which intersected 80 feet at 0.09 opt of gold (6.1 m @ 8.79 g/t). The data for Windfall will support potential development of a resource estimate of the gold mineralization at the project.

In order to prioritize our resources toward the development of Talapoosa, we are not planning any material exploration expenditures at the Eureka Project in 2016.

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

Butte Highlands Project, Montana

In July 2007, we acquired the Butte Highlands Gold Project, located approximately 15 miles south of Butte, Montana in Silver Bow County. The property covers 1,142 acres consisting of a combination of patented and unpatented mining claims. The project is within a favorable geologic domain that has hosted several multi-million ounce gold deposits. A feasibility study was not completed on the project, and there are no proven and probable reserves at the property under Guide 7. Our activities there were exploratory in nature.

On January 29, 2016, we executed a Member Interest Purchase Agreement (the "Purchase Agreement") with New Jersey Mining Company ("NJMC") pursuant to which we sold all of our 50% interest in the Butte Highlands, JV, LLC (the "JV Interest"). Pursuant to the Purchase Agreement, the parties agreed that consideration for the JV Interest consisted of, (i) two hundred and twenty-five thousand dollars (\$225,000) and (ii) three million (3,000,000) restricted shares of New Jersey ("New Jersey Shares"). \$50,000 of the cash consideration (the "Down Payment") was paid on January 25, 2016 with the remaining \$175,000 of the cash consideration and the New Jersey Shares paid at closing, which occurred on January 29, 2016. The total value of the consideration at the closing date was \$447,900.

Summary

We believe the global economic environment and monetary climate continue to favor a relatively steady gold price for the foreseeable future. While volatility is to be expected, our expectation is that we can identify and pursue opportunities to advance our projects in spite of the current gold price and market volatility.

As a company, we are considering strategic corporate opportunities with our focus on providing for the advancement of our Talapoosa project. In May 2015, we finalized a positive Preliminary Economic Assessment (“PEA”) at Talapoosa, the results of which had been announced on April 27, 2015. We believe that with appropriate funding, the Talapoosa project can advance toward the preparation of a pre-feasibility study for an anticipated open pit mining operation. Subject to available capital, exploration programs at the Lookout Mountain and Windfall areas within our Eureka project and at Seven Troughs may also continue. We believe that management and our board of directors have the knowledge and experience to evaluate strategic opportunities and to provide for the advancement of our Talapoosa project toward a production decision.

Results of Operations for the three months ended December 31, 2015 and 2014

Consolidated Results

(\$US)	Three Months Ended December 31,	
	2015	2014
Exploration expenses :		
Eureka	\$ 28,518	\$ 157,633
Talapoosa	46,099	-
Other exploration properties	64,070	84,687
Total exploration expenditures	138,687	242,320
Non-cash expenses:		
Stock option and stock unit expense	351,966	109,500
Depreciation, amortization and accretion	1,980	3,572
Total non-cash expenses	353,946	113,072
Professional fees expense	106,044	89,078
Salaries and benefits (excluding stock-based)	152,069	144,947
Miscellaneous other income	(24,141)	(654)
Other general and administrative expenses	57,314	99,922
Net loss	\$ (783,919)	\$ (688,685)

Our consolidated net loss for the three months ended December 31, 2015 was \$783,919 compared to a consolidated net loss of \$688,685 for the three months ended December 31, 2014. The year over year difference is primarily attributed to increased non-cash stock based compensation expense and professional fees in the three months ended December 31, 2015 offset by decreased exploration expenditures and other general and administrative expenses. Exploration expenditures during the three months ended December 31, 2015 decreased as we reduced our exploration program expenditures due to our financial condition. Expenses for the advancement of Talapoosa and exploration at Eureka are expected to continue in 2016, subject to adequate funding.

Financial Condition and Liquidity

At December 31, 2015, we had assets of \$16,777,906, consisting of cash in the amount of \$42,952; property, mineral rights and equipment, net of depreciation of \$15,305,278, and other assets in the amount of \$1,429,676.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of our assets and the settlement of our liabilities in the normal course of our operations. Disruptions in the credit and financial markets over the past several years have had a material adverse impact on a number of financial institutions and investors and have limited access to capital and credit for many companies. In addition, commodity prices and mining equities have seen significant volatility which increases the risk to precious metal investors. Credit and market disruptions, among other things, make it more difficult for us to obtain, or increase our cost of obtaining, capital and financing for our operations. Our access to additional capital may not be available on terms acceptable to us or at all. If we are unable to obtain financing through equity investments, we will seek multiple solutions including, but not limited to, asset sales, credit facilities or debenture issuances in order to continue as a going concern.

At December 31, 2015, we had a working capital deficit of \$583,470. As of the date of this report, we have approximately \$525,000 outstanding in current liabilities and a cash balance of approximately \$75,000. As of the date of this Quarterly Report on Form 10-Q, we do not anticipate that we will be able to continue as a going concern for the next 12 months without receiving significant additional financing. Therefore, we expect to engage in financial transactions to increase our cash balance or decrease our cash obligations in the near term, which may include equity financings, joint venture agreements, sales of non-core assets, credit facilities or debenture issuances, or other strategic transactions.

We are working to increase our working capital by decreasing our expenditures and advancing transactions aimed at improving our cash position. We have implemented significant across-the-board salary reductions; reduced staff, curtailed discretionary exploration expenditures; and reduced professional fees and other general and administrative expenditures. We are also working to increase our working capital by exploring multiple financing alternatives.

We recognize that we will not be able to execute our operating plans with our current cash balances. However, with our current cash balance, our expected ability to acquire additional capital and complete necessary financing transactions, and our ability to curtail discretionary exploration expenditures as needed, we believe that we will have sufficient working capital to meet our ongoing, non-discretionary operating expenses for the next 12 months and maintain our primary mineral properties. Additional capital may be obtained through financing transactions such as asset sales, equity investments, joint ventures, debt facilities, or other types of strategic arrangements.

We plan, as funding allows, to follow-up on our completed PEA of Talapoosa with a pre-feasibility study, which is expected to include trade-off studies, further metallurgical tests, and analysis of milling and other processing scenarios. Also subject to available capital, we may continue prudent exploration programs on our material exploration properties and/or fund some exploratory activities on early-stage properties. We are currently revising our corporate and exploration budgets with a focus on the advancement of the Talapoosa pre-feasibility study. Our current working capital is not sufficient to meet our currently planned exploration costs and general corporate and administrative expenses through the end of fiscal 2016, and we will require additional funding and reductions in exploration and administrative expenditures.

Given current market conditions, we cannot provide assurance that necessary financing will be available to us on acceptable terms or at all. Without additional financing, we would have to significantly curtail our exploration and other expenditures while we seek alternative funding arrangements to provide sufficient capital to meet our ongoing, non-discretionary expenditures for the next 12 months and maintain our primary mineral properties. A clerical error resulted in certain unpatented mining claims which are not material to the company becoming open to mineral entry and being located by a third party. We are in the process of regaining ownership of the claims by exchanging certain non-material patented mining claims that we own related to past projects, as well as some newly-located unpatented claims, for the unpatented claims. We anticipate an acceptable resolution by the end of February 2016. In addition, if we cannot obtain sufficient additional financing, we may be unable to make required property payments on a timely basis and be forced to return some or all of our leased or optioned properties to the underlying owners.

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 Principal Executive Officer and the Principal Financial Officer, 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 Company's management, including the Principal Executive Officer and the Principal Financial Officer, has 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 Principal Executive Officer and Principal Financial Officer, 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.

Subsequent to the end of the fiscal quarter, due to changes in management and the temporary consolidation of the offices of Principal Executive Officer and Principal Financial Officer, the Company's management believes that such consolidation is reasonably likely to materially affect the Company's internal control over financial reporting and may result in material weaknesses in our internal control over financial reporting, including appropriate segregation of duties, review and signature authority, and accounting knowledge and competency. The Company has addressed these potential material weaknesses by retaining the Company's previous Chief Financial Officer on a consulting basis and anticipates remediating these potential material weaknesses on a long-term basis by appointing a new Chief Financial Officer in the near future and thereby separating the offices of the Principal Executive Officer and Principal Financial Officer.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not aware of any material pending 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 any currently pending litigation.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended September 30, 2015 which was filed with the SEC on December 29, 2015.

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES

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

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities with respect to mining operations and properties in the United States that are subject to regulation by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”). During the quarter ended December 31, 2015, our U.S. exploration properties were not subject to regulation by the MSHA under the Mine Act.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 3.1** Certificate of Incorporation of the Registrant as amended through October 31, 2014, incorporated by reference to the Company’s Form 10-K as filed with the Securities and Exchange Commission on December 23, 2014
- 3.2** Amended By-Laws of the Registrant, incorporated by reference to the Company’s Form 8-K as filed with the Securities and Exchange Commission on August 13, 2015.
- 4.1** Specimen of the Common Stock Certificate, incorporated by reference to the Company’s Form 10SB as filed with the Securities Exchange Commission on September 29, 2005
- 4.2** Form of Warrant Agreement between the Company and Aegis Capital Corp., incorporated by reference to the Company’s Form 10-K filed with the Securities and Exchange Commission on December 18, 2013.
- 31.1*** Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rules 13a-14 and 15d-14 of the Exchange Act)
- 32.1*** Certification of Chief Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
- 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/ Steven A. Osterberg

Steven A. Osterberg
President and Chief Executive Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

Date: February 12, 2016

CERTIFICATION

I, Steven A. Osterberg, 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. I am 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 my 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 my 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. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 12, 2016

By: /s/ Steven A. Osterberg

Steven A. Osterberg
President & Chief Executive Officer
Principal Executive Officer and Principal Financial Officer

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

In connection with the Quarterly Report of Timberline Resources Corporation (the “Company”) on Form 10-Q for the quarter ended December 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steven A. Osterberg, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 12, 2016

By: /s/ Steven A. Osterberg

Steven A. Osterberg
President & Chief Executive Officer
Principal Executive Officer and 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.