

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

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from _____ to _____

Commission file number: 001-34055



TIMBERLINE RESOURCES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

DELAWARE

(State of other jurisdiction of incorporation or organization)

82-0291227

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

101 EAST LAKESIDE AVENUE
COEUR D'ALENE, IDAHO

(Address of Principal Executive Offices)

83814

(Zip Code)

(208) 664-4859

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value	TLRS TBR	OTCQB TSX-V

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Small Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of issuer's common stock outstanding at May 14, 2021: 116,487,724

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COVID-19

In March 2020, COVID-19 was declared a pandemic by the World Health Organization and the Centers for Disease Control and Prevention. Its rapid spread around the world and throughout the United States prompted many countries, including the United States, to institute restrictions on travel, public gatherings and certain business operations. These restrictions did not significantly disrupt economic activity in Timberline Resource's business.

As of March 31, 2021, the pandemic had not materially impacted the Registrants' financial statements. However, if the severity of the COVID-19 pandemic continues, the negative financial impact due to limitations in conducting geologic field work and exploration activities could be significantly greater in future periods. In addition, the economic disruptions caused by COVID-19 could adversely impact the impairment risks for certain long-lived assets and equity method investments. Timberline Resources evaluated these impairment considerations and determined that no such impairments occurred as of March 31, 2021.

The effects of the continued outbreak of COVID-19 and related government responses could also include extended disruptions to supply chains and capital markets, reduced availability of contractors and a prolonged reduction in economic activity. These effects could have a variety of adverse impacts on the Company, including its ability to conduct exploration activities. As of March 31, 2021, there were no material adverse impacts on the Company's operations due to COVID-19.

As of March 31, 2021, Timberline Resource's available cash is \$763,937. Management believes the Company has adequate liquidity to fund current obligations and commitments. To the extent that future access to the capital markets or the cost of funding is adversely affected by COVID-19, the Company may need to consider additional sources of funding for operations and working capital, which may adversely impact future results of operations, financial condition, and cash flows.

The Company has taken steps to mitigate the potential risks to suppliers and employees posed by the spread of COVID-19, including work from home policies where appropriate. The Company will continue to monitor developments affecting both its workforce and contractors, and will take additional precautions as necessary. The ultimate impact of COVID-19 depends on factors beyond management's knowledge or control, including its duration and third-party actions to contain its spread and mitigate its public health effects. Therefore, the Company cannot estimate the potential future impact to its financial position, results of operations and cash flows, but the impacts could be material.

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 (UNAUDITED)

	<u>March 31, 2021</u>	<u>September 30, 2020</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 763,937	\$ 2,520,726
Prepaid expenses and other current assets	76,454	14,144
TOTAL CURRENT ASSETS	<u>840,391</u>	<u>2,534,870</u>
 PROPERTY, MINERAL RIGHTS AND EQUIPMENT, net	 <u>13,801,275</u>	 <u>13,807,655</u>
 OTHER ASSETS:		
Reclamation bonds	538,696	538,696
Deposits and other assets	5,700	5,700
TOTAL OTHER ASSETS	<u>544,396</u>	<u>544,396</u>
 TOTAL ASSETS	 <u>\$ 15,186,062</u>	 <u>\$ 16,886,921</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 58,731	\$ 173,981
Accrued expenses	13,585	39,440
Accrued expenses – related party	8,034	-
Accrued interest – related party	183,741	142,492
Accrued payroll, benefits and taxes	37,204	23,557
TOTAL CURRENT LIABILITIES	<u>301,295</u>	<u>379,470</u>
 LONG-TERM LIABILITIES:		
Asset retirement obligation	115,431	112,615
Senior unsecured note payable – related party	300,000	300,000
TOTAL LONG-TERM LIABILITIES	<u>415,431</u>	<u>412,615</u>
TOTAL LIABILITIES	<u>716,726</u>	<u>792,085</u>
 COMMITMENTS AND CONTINGENCIES (Note 8)	 -	 -
 STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 500,000,000 shares authorized, 114,337,724 and 112,075,224 shares issued and outstanding, respectively	114,337	112,075
Additional paid-in capital	80,055,103	79,613,593
Accumulated deficit	(65,700,104)	(63,630,832)
TOTAL STOCKHOLDERS' EQUITY	<u>14,469,336</u>	<u>16,094,836</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 15,186,062</u>	 <u>\$ 16,886,921</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2021	2020	2021	2020
OPERATING EXPENSES:				
Mineral exploration	\$ 223,546	\$ 12,749	\$ 1,400,072	\$ 159,231
Salaries and benefits	78,261	67,324	155,918	192,614
Professional fees	46,305	50,614	120,873	119,465
Insurance expense	38,818	33,436	63,601	52,178
Other general and administrative	81,419	98,150	298,756	250,322
TOTAL OPERATING EXPENSES	<u>468,349</u>	<u>262,273</u>	<u>2,039,220</u>	<u>773,810</u>
LOSS FROM OPERATIONS	<u>(468,349)</u>	<u>(262,273)</u>	<u>(2,039,220)</u>	<u>(773,810)</u>
OTHER INCOME (EXPENSE):				
Foreign exchange gain (loss)	4,717	392	12,128	394
Loss on debt modification – related party	-	-	-	(195,611)
Interest expense	-	(7,120)	-	(19,531)
Interest expense – related party	(21,547)	(46,034)	(42,234)	(91,112)
Miscellaneous other income	20	9	54	25
TOTAL OTHER INCOME (EXPENSE)	<u>(16,810)</u>	<u>(52,753)</u>	<u>(30,052)</u>	<u>(305,835)</u>
LOSS BEFORE INCOME TAXES	<u>(485,159)</u>	<u>(315,026)</u>	<u>(2,069,272)</u>	<u>(1,079,645)</u>
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>\$ (485,159)</u>	<u>\$ (315,026)</u>	<u>\$ (2,069,272)</u>	<u>\$ (1,079,645)</u>
NET LOSS PER SHARE BASIC AND DILUTED	<u>\$ (nil)</u>	<u>\$ (nil)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	114,180,916	74,895,260	113,347,269	73,952,637

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, September 30, 2020	112,075,224	\$ 112,075	\$ 79,613,593	\$ (63,630,832)	\$ 16,094,836
Common stock issued for exercise of warrants	950,000	950	132,050	-	133,000
Stock based compensation	-	-	127,022	-	127,022
Net loss	-	-	-	(1,584,113)	(1,584,113)
Balance December 31, 2020	113,025,224	\$ 113,025	\$ 79,872,665	\$ (65,214,945)	\$ 14,770,745
Common stock issued for exercise of warrants	1,312,500	1,312	182,438	-	183,750
Net loss	-	-	-	(485,159)	(485,159)
Balance, March 31, 2021	114,337,724	\$ 114,337	\$ 80,055,103	\$ (65,700,104)	\$ 14,469,336

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
Balance, September 30, 2019	67,395,260	\$ 67,395	\$ 74,568,258	\$ (60,253,741)	\$ 14,381,912
Common stock and warrants issued for cash	7,500,000	7,500	592,500	-	600,000
Stock based compensation	-	-	161,100	-	161,100
Warrants issued for extinguishment of debt – related party	-	-	170,500	-	170,500
Net loss	-	-	-	(764,619)	(764,619)
Balance, December 31, 2019	74,895,260	74,895	75,492,358	(61,018,360)	14,548,893
Net loss	-	-	-	(315,026)	(315,026)
Balance, March 31, 2020	74,895,260	\$ 74,895	\$ 75,492,358	\$ (61,333,386)	\$ 14,233,867

See accompanying notes to consolidated financial statements.

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

	Six months Ended March 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,069,272)	\$ (1,079,645)
Adjustments to reconcile net loss to net cash used by operating activities:		
Stock-based compensation	127,022	161,100
Accretion of asset retirement obligation	2,816	4,165
Amortization of discount on senior unsecured notes payable – related party	-	31,785
Loss on debt modification– related party	-	195,611
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(62,310)	(27,021)
Accounts receivable	-	118,525
Accounts payable	(115,250)	(81,140)
Accrued expenses	(25,855)	(84,910)
Accrued expenses – related party	8,034	-
Accrued interest	-	(8,028)
Accrued interest – related party	41,249	59,327
Accrued payroll, benefits and taxes	13,647	(480)
Related party advance	-	205,194
Net cash used by operating activities	<u>(2,079,919)</u>	<u>(505,517)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of mineral rights	(46,000)	-
Proceeds from lease of mineral rights	52,380	58,209
Refund of reclamation bond	-	12,500
Net cash provided by investing activities	<u>6,380</u>	<u>70,709</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of common stock and warrants, net	-	600,000
Payments on payment obligation	-	(28,294)
Proceeds from exercise of warrants	316,750	-
Net cash provided by financing activities	<u>316,750</u>	<u>571,706</u>
Net increase (decrease) in cash and cash equivalents	(1,756,789)	136,898
CASH AT BEGINNING OF PERIOD	2,520,726	30,757
CASH AT END OF PERIOD	<u>\$ 763,937</u>	<u>\$ 167,655</u>

See accompanying notes to consolidated financial statements.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 (Unaudited)

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, the Company reincorporated into the State of Delaware, pursuant to a merger agreement approved by its shareholders.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. *Basis of Presentation and Going Concern* – The unaudited financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) 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 GAAP 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 six-month periods ended March 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2021.

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, 2020.

The accompanying consolidated financial statements have been prepared under the assumption that the Company will continue as a going concern. The Company has incurred losses since its inception. The Company has sufficient cash to fund normal operations and meet all of its obligations for the next 12 months without raising additional funds. However, we are an exploration company with exploration programs that require significant cash expenditures. A significant drilling program, such are those we have planned, can result in depletion of cash and return us to a position of insufficient cash to support normal operations for 12 months. The Company currently has no historical recurring source of revenue, and its ability to continue as a going concern is dependent on its ability to raise capital to fund future exploration and working capital requirements, or the Company’s ability to profitably execute its business plan. The Company’s plans for the long-term return to and continuation as a going concern include financing its future operations through sales of common stock and/or debt and the eventual profitable exploitation of its mining properties. 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. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

The consolidated financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. If the going concern basis were not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

- b. *New Accounting Pronouncements* - In August 2020, the FASB issued ASU No. 2020-06 Debt - Debt With Conversion And Other Options (Subtopic 470-20) And Derivatives And Hedging - Contracts In Entity’s Own Equity (Subtopic 815-40): Accounting For Convertible Instruments And Contracts In An Entity’s Own Equity. The update simplifies the accounting for and disclosures related to company debt that is convertible or can be settled in a company’s own equity securities. The update is effective for fiscal years beginning after December 15, 2021. Management is evaluating the impact of this update on the Company’s debt disclosures.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

- c. *Principles of Consolidation* – The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, BH Minerals USA, Inc.; Lookout Mountain LLC; Wolfpack Gold (Nevada) Corp.; Staccato Gold Resources, Ltd.; and Talaposa Development Corp., after elimination of intercompany accounts and transactions. Lookout Mountain LLC has been consolidated beginning as of July 29, 2020 (see Note 3). Due to the change in ownership of Lookout Mountain LLC and the transfer to the Company of all management and approval responsibilities, the Company began consolidating all balance sheet and expense transactions relative to the Lookout Mountain Project into its consolidated financial statements as of July 29, 2020.
- d. *Exploration Expenditures* – All exploration expenditures are expensed as incurred. Significant property acquisition payments for active exploration properties are capitalized. If no mineable ore body is discovered, previously

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 (Unaudited)

capitalized costs are expensed in the period the property is abandoned. When it is determined that a mineral deposit can be economically developed as a result of establishing proven and probable reserves, the costs incurred after such determination will be capitalized and amortized over their useful lives. To date, the Company has not established the commercial feasibility of its exploration prospects; therefore, all exploration costs are being expensed.

- e. *Property Holding Costs* – Holding costs to maintain a property, excluding mineral lease payments, are expensed in the period they are incurred. These costs include security and maintenance expenses, claim fees and payments, and environmental monitoring and reporting costs.
- f. *Fair Value* – When required to measure assets or liabilities at fair value, the Company uses a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used. The Company determines the level within the fair value hierarchy in which the fair value measurements in their entirety fall. The categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 1 uses quoted prices in active markets for identical assets or liabilities, Level 2 uses significant other observable inputs, and Level 3 uses significant unobservable inputs. The amount of the total gains or losses for the period are included in earnings that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date.

At March 31, 2021 and September 30, 2020, the Company had no assets or liabilities accounted for at fair value on a recurring basis or nonrecurring basis. The carrying amounts of financial instruments, including a senior unsecured note payable-related party, approximate fair value at March 31, 2021 and September 30, 2020.

- g. *Cash Equivalents* – For the purposes of the statement of cash flows, the Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 for accounts at each financial institution.
- h. *Reclamation Bonds* – Bonds paid to assure reclamation of properties covered by exploration permits are capitalized in the period paid, reduced as refunds are received or expensed as they are applied to reclamation obligations.
- i. *Estimates and Assumptions* – The preparation of financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management assumptions and estimates relate to long-lived asset impairments, asset retirement obligations, and stock-based compensation. Actual results could differ from these estimates and assumptions and could have a material effect on the Company's reported financial position and results of operations.
- j. *Property and Equipment* – Property and equipment are stated at cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, which ranges from two to seven years. Maintenance and repairs are charged to operations as incurred. Significant improvements are capitalized and depreciated over the useful life of the assets. Gains or losses on disposition or retirement of property and equipment are recognized in operating income or expenses.
- k. *Asset Impairments - Carrying Value of Property, Mineral Rights and Equipment* – The Company reviews the carrying value of property, mineral rights, and 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 its 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 related assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, the effects of obsolescence, demand, competition, and other economic factors.
- l. *Asset Retirement Obligations* – The Company accounts for asset retirement obligations by following the methodology for accounting for estimated reclamation and abandonment costs as prescribed by GAAP. 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 and a contractual obligation exists. An ARO asset 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 estimate underlying the obligation. The Company has an asset retirement obligation associated with its exploration program at the Lookout Mountain Target on its Eureka Project, and its Paiute Project.

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 (Unaudited)

- m. *Stock-based Compensation* – The Company estimates the fair value of its stock-based option compensation, and warrants when issued, using the Black-Scholes model, which requires the input of some subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (“expected life”), the estimated volatility of the Company’s common stock price over the expected term (“volatility”), employee forfeiture rate, the risk-free interest rate and the dividend yield. Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation.

The fair value of common stock awards is determined based upon the closing price of the Company’s stock on the grant date of the award. Compensation expense for grants that vest is recognized ratably over the vesting period.

- n. *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 as of March 31, 2021 and 2020 is as follows:

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
Stock options	5,937,500	5,400,000
Warrants	73,372,170	45,541,908
Total potential dilution	<u>79,309,670</u>	<u>50,941,908</u>

At March 31, 2021 and 2020, the effect of the Company’s common stock equivalents would have been anti-dilutive. Accordingly, only basic EPS is presented.

NOTE 3 – PROPERTY, MINERAL RIGHTS, AND EQUIPMENT:

The following is a summary of property, mineral rights, and equipment and accumulated depreciation at March 31, 2021 and September 30, 2020, respectively:

	<u>Expected Useful Lives (years)</u>	<u>March 31, 2021</u>	<u>September 30, 2020</u>
Mineral rights - Eureka	-	\$ 13,684,798	\$ 13,701,178
Mineral rights – Other	-	65,000	55,000
Total mineral rights		<u>13,749,798</u>	<u>13,756,178</u>
Equipment and vehicles	2-5	53,678	53,678
Office equipment and furniture	3-7	70,150	70,150
Land	-	51,477	51,477
Total property and equipment		<u>175,305</u>	<u>175,305</u>
Less accumulated depreciation		<u>(123,828)</u>	<u>(123,828)</u>
Property, mineral rights, and equipment, net		<u>\$ 13,801,275</u>	<u>\$ 13,807,655</u>

For the six months ended March 31, 2021 and 2020, the Company received mineral lease payments of \$52,380 and \$58,209, respectively, from a third party on two property blocks the Company leases at the Company’s Eureka property. Monthly payments in the amount of approximately \$8,700 are expected to continue to be received. These receipts are recorded as a reduction to property, mineral rights, and equipment.

NOTE 4 – RELATED-PARTY TRANSACTIONS:

A senior unsecured note payable and interest accrued thereon payable to William Matlack, a shareholder and director of the Company, is disclosed in Note 5.

During the year ended September 30, 2020, two directors participated in a private placement offering of units of the Company, purchasing 909,091 units for total proceeds of \$100,000. Each Unit was priced at \$0.11 and consisted of one share of common stock of the Company and one common share Class L Warrant, with each warrant exercisable to acquire

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 (Unaudited)

an additional share of common stock of the Company at a price of \$0.20 per share until August 15, 2023. The participation of the directors of the Company in this private placement was at arm's length, on the same terms as other investors in the private placement offering. The Board of Directors approved the insiders' participation in the private placement.

At March 31, 2021, two officers were owed a total of \$6,249 for expenses recorded in Accounts payable on the balance sheet that were reimbursed subsequent to the end of the period. Also at March 31, 2021, the Company owed \$8,034 related to a former officer's insurance who remained as a director at that date.

NOTE 5 – SENIOR UNSECURED NOTE PAYABLE – RELATED PARTY:

On July 30, 2018, the Company entered into a loan agreement and promissory note with William Matlack, a significant shareholder and a director as of October 29, 2019, (the "Lender"). Under the loan agreement, the Lender loaned the Company \$300,000 in the form of a senior unsecured note payable, with the principal bearing interest at an annual rate of 18%, compounded monthly. The loan is unsecured and has a maturity date of January 20, 2023.

At March 31, 2021 and at September 30, 2020, the senior unsecured note payable was \$300,000.

The accrued interest on the senior unsecured note payable was \$183,741 and \$142,492 at March 31, 2021 and September 30, 2020, respectively. Interest expense related to the senior unsecured note payable to this related party was \$42,234 and \$91,112 for the six months ended March 31, 2021 and March 31, 2020, respectively.

The \$300,000 senior unsecured note payable is senior to any other debt obtained by the Company subsequent to March 31, 2021. The senior unsecured note payable requires that when the Company enters into any other financings, 25% of the proceeds of such financings will be paid toward reduction of the principal and interest accrued on the note. No payments have been made by the Company to the Lender, and the Lender provided a waiver of default as of September 30, 2020 on the note that would otherwise have occurred due to such non-payment of the 25% of proceeds at the time of the financing in 2020.

NOTE 6 – STOCKHOLDERS' EQUITY:

Common Shares issued for Exercise of Warrants

During the six months ended March 31, 2021, holders of Series D Warrants exercised 1,725,000 warrants for \$0.14 per share to acquire 1,725,000 shares of the Company's common stock for total cash proceeds of \$241,500 to the Company. Also, holders of Series E Warrants exercised 537,500 warrants for \$0.14 per share to acquire 537,500 shares of the Company's common stock for total cash proceeds of \$75,250 to the Company. At March 31, 2021, the Company has a total of 73,372,170 warrants outstanding with a weighted average exercise price of \$0.19, a weighted average remaining term of 1.6 years and an intrinsic value of \$450,957.

NOTE 7 – STOCK-BASED AWARDS:

On October 8, 2020, the Company granted a total of 1,100,000 options to purchase shares of the Company's common stock that expire in five years with an exercise price of \$0.25 in conjunction with the appointment of Patrick Highsmith as CEO (750,000 options), Mr. Steven Osterberg as VP-Exploration (250,000 options), and addition of Mr. Quinton Hennigh to the Board of Directors (100,000 options). Of Mr. Highsmith's options, 187,500 vested immediately, with 187,500 vesting at each of the following three grant anniversary dates.

The fair value of the option awards granted and vested during the six months ended March 31, 2021 and 2020 was \$127,022 and \$161,100, respectively. No options were granted during the three months ended March 31, 2021 or 2020. The fair value of unvested options will be recognized as compensation in the amount of \$44,321 in each of the following three years covered by the vesting period. Fair values of options issued were measured on the date of the grant with a Black-Scholes option-pricing model using the assumptions noted in the following table:

TIMBERLINE RESOURCES CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 (Unaudited)

	Options Granted at October 8, 2020	Options Granted at October 29, 2019
Expected volatility	171.9%	149.5%
Stock price on date of grant	\$0.25	\$ 0.07
Exercise price	\$0.25	\$ 0.08
Expected dividends	-	-
Expected term (in years)	5	5
Risk-free rate	0.09%	1.66%
Expected forfeiture rate	0%	0%

The following is a summary of options issued and outstanding at March 31, 2021:

	Options	Weighted Average Exercise Price
Outstanding at September 30, 2019	3,280,000	\$ 0.26
Granted	2,550,000	0.08
Expired	(430,000)	(0.43)
Outstanding at September 30, 2020	5,400,000	0.09
Granted	1,100,000	0.25
Expired	-	-
Outstanding at March 31, 2021	<u>6,500,000</u>	<u>\$ 0.18</u>
Outstanding and exercisable at March 31, 2021	<u>5,937,500</u>	<u>\$ 0.17</u>
Weighted average remaining contractual term (years)		<u>2.52</u>

The aggregate of options exercisable as of March 31, 2021 had an intrinsic value of \$517,500, based on the closing price of \$0.23 per share of the Company's common stock on March 31, 2021.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

The Company has the following commitments and contingencies:

Mineral Exploration

A portion of the Company's mining claims on the Company's properties are subject to lease and option agreements with various terms, obligations, and royalties payable in certain circumstances.

The Company pays federal and county claim maintenance fees on unpatented claims that are included in the Company's mineral exploration properties. Should the Company continue to explore all of the Company's mineral properties, it expects annual fees to total approximately \$209,449 per year in the future.

Real Estate Lease Commitments

At September 30, 2020, the Company had real estate lease commitments for certain mineral properties totaling \$72,000 annually. The Company's office in Coeur d'Alene, Idaho and its facilities in Eureka, Nevada are rented on a month-to-month basis.

NOTE 9 – SUBSEQUENT EVENTS:

Subsequent to March 31, 2021, holders of Class D and Class H Warrants exercised a total of 2,150,000 warrants for \$0.14 per share and received 2,150,000 shares of the Company's common stock for total cash proceeds of \$301,000 to the Company.

On May 6, 2021, the Company granted 2,785,000 stock options to directors, officers, and consultants to the Company.

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

As used in herein, the terms “Timberline,” the “Company,” “we,” “us,” and “our” refer to Timberline Resources Corporation.

This discussion and analysis contains forward-looking statements that involve known or unknown risks, uncertainties and other factors that may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Except for historical information, the matters set forth herein, which are forward-looking statements, involve certain risks and uncertainties that could cause actual results to differ. Potential risks and uncertainties include, but are not limited to, unexpected changes in business and economic conditions; significant increases or decreases in gold prices; changes in interest and currency exchange rates; unanticipated grade changes; metallurgy, processing, access, availability of materials, equipment, supplies and water; results of current and future exploration and production activities; local and community impacts and issues; timing of receipt and maintenance of government approvals; accidents and labor disputes; environmental costs and risks; competitive factors, including competition for property acquisitions; and availability of external financing at reasonable rates or at all, and those set forth under the heading “Risk Factors” in our Form 10-K filed with the United States Securities and Exchange Commission (the “SEC”) on January 13, 2021. Forward-looking statements can be identified by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continues” or the negative of these terms or other comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance, or achievements. Forward-looking statements are made based on management’s beliefs, estimates, and opinions on the date the statements are made, and the Company undertakes no obligation to update such forward-looking statements if these beliefs, estimates, and opinions should change, except as required by law.

This discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes. The discussion and analysis of the financial condition and results of operations are based upon the unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of any contingent liabilities at the financial statement date and reported amounts of revenue and expenses during the reporting period. On an on-going basis the Company reviews its estimates and assumptions. The estimates were based on historical experience and other assumptions that the Company believes to be reasonable under the circumstances. Actual results are likely to differ from those estimates under different assumptions or conditions, but the Company does not believe such differences will materially affect our consolidated financial position or results of operations. Critical accounting policies, the policies the Company believes are most important to the presentation of its consolidated financial statements and require the most difficult, subjective and complex judgments are outlined below in “Critical Accounting Policies” and have not changed significantly.

Corporate Overview

Our business is mineral exploration in Nevada with a focus on district-scale gold projects such as our district-scale Eureka Project, where we are focused on delivering high-grade Carlin-type gold discoveries. The Eureka property includes the historic Lookout Mountain and Windfall Mines in a total property position of approximately 24 square miles (62 square kilometers). The Eureka mineral resource was reported in compliance with Canadian NI 43-101 in an Updated Technical Report on the Lookout Mountain Project by Mine Development Associates, Effective March 1, 2013, filed on SEDAR April 12, 2013:

Resource Category	Tonnage (million short tons)	Grade (oz/ton)	Grade (grams/tonne)	Contained Au (troy oz)
Measured	3.04	0.035	1.20	106,000
Indicated	25.90	0.016	0.55	402,000
Inferred	11.71	0.012	0.41	141,000

We are also operator of the Paiute Joint Venture Project with Nevada Gold Mines in the Battle Mountain District. Both of these properties lie on the prolific Battle Mountain-Eureka gold trend. We also control the Seven Troughs Project in

northern Nevada, which is one of the state's highest-grade former gold producers. In total, we control over 43 square miles (111 square kilometers) of mineral rights in Nevada. Detailed maps and mineral resource estimates for the Eureka Project and NI 43-101 technical reports for its projects may be viewed at <http://timberlinerresources.co/>.

Corporate Update

In January 2021, we announced the appointment of Mr. Patrick Highsmith, our President and CEO, to the board of directors effective January 1, 2021. At the Company's annual meeting of shareholders on April 14, 2021, our shareholders approved a downsized board of directors, including five members: Leigh Freeman (Chairman), Quinton Hennigh, Patrick Highsmith, William Matlack, and Don McDowell. In another event subsequent to the end of the quarter, on May 6, 2021 we announced the appointment of Ms. Pamela Saxton to the board of directors.

Summary of the exploration activities for the three months ended March 31, 2021:

During the three months ending March 31, 2021, we announced final results of the 2020 exploration program at our 100%-controlled Eureka Project in Nevada. Announcements during the quarter included the last of the reverse circulation (RC) drilling around the Lookout Mountain resource area and three exploration core holes that were significant step-outs away from known mineralization (see Figure 1). We also shared the results of a significant induced polarization/resistivity (IP) survey at the Lookout Mountain and Windfall targets.

On January 7, 2021, Timberline announced results for the final five holes of the 2020 RC drill program. The results include considerable near-surface oxide gold mineralization and multiple high-grade intercepts above 4.0 grams per tonne (g/t) of gold (see Table 1). The primary objectives of the 12-hole, 2,438m (8,000 ft) RC drill program were to infill and expand the current mineral resource and test for deeper sulfide mineralization to the east in the graben structure (see Figure 1).

On March 25, 2021, we announced assay results from the three core holes totaling 1,365m (4,478 ft), which completed our 2020 drilling campaign. These core holes were exploration holes, well outside the footprint of the resource, targeting the down-dip extension of the Lookout Mountain mineralization to the east (Figure 1). However, they were not drilled deep enough to test the target because of previously unknown faults that have down-dropped the most favorable rock units. While there were considerable thicknesses of anomalous gold, silver, and associated pathfinder elements in these holes, they did not encounter gold mineralization above the Company's cutoff grade of 0.3 g/t.

The new drill core revealed extensive alteration that is consistent with Carlin-type gold systems. In addition, there was low level silver-lead-zinc mineralization that could be related to nearby carbonate-replacement-deposits, for which the historic Eureka District was well known.

The 2020 drill program improved our geological understanding within and outside the existing Lookout Mountain gold resource area (508,000oz gold Measured & Indicated and 141,000oz gold Inferred; *see below and refer to Updated NI 43-101 Technical Report on the Lookout Mountain Project, MDA, Effective March 1, 2013, filed on SEDAR April 12, 2013*). Regarding the resource area and possible expansions, the new drill holes provided important in-fill data, offset and improved historic high-grade intercepts, and extended higher grade gold mineralization east of the resource. In aggregate, the near-surface oxide gold and deeper high-grade gold intercepts from the 2020 program highlight the continued growth opportunity at our Eureka Project.

Drilling Highlights (see Table 1)

- Hole BHSE-176 intercepted near surface high-grade oxide gold mineralization, 15.24m averaging 10.09 g/t, beginning at 21.34m downhole depth. Within this interval, there are sub-intervals of 9.14m of 16.31 g/t, including 3.05m of 31.40 g/t.
- Holes BHSE-177 and 178 encountered shallow oxide gold within the existing resource, including 18.29m (beginning at the surface) of 0.87 g/t, 48.77m of 1.00 g/t, and 59.44m of 0.63 g/t.
- Holes BHSE-180, 181, and 182 confirmed northward and down dip extensions of mineralization beyond the historic Lookout Mountain pit, including gold intercepts up to 18.29m of 1.58 g/t in BHSE-182.
- Hole BHSE-184 intercepted 18.29m of 0.93 g/t oxide gold from 3.0m below surface.
- Hole BHSE-186 intercepted 6.10m of near-surface, high-grade gold (5.21 g/t) and 25.91m @ 0.77 g/t gold from 47.24m downhole, both intervals being oxidized material.

- Hole BHSE-187, a step-out hole drilled approximately 75m northeast of the existing resource, encountered 7.62m of 4.49 g/t, within an interval of 25.91m @ 2.18 g/t gold.

Figure 1 - Lookout Mountain 2020 Drilling

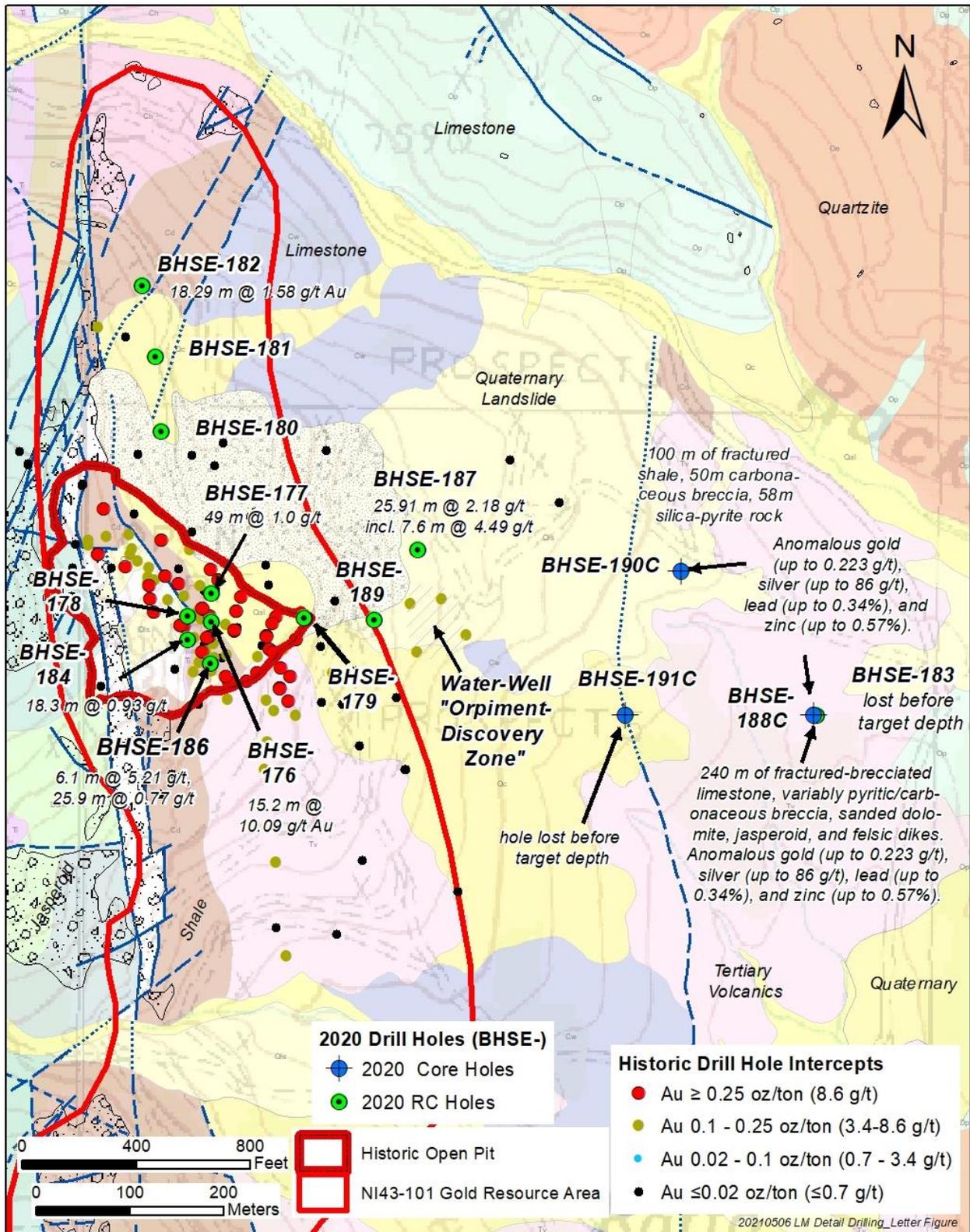


Table 1. Significant Drill Intercepts from 2020 Drilling Campaign at Lookout Mountain Deposit

Hole	Azimuth (degrees)	Inclination (degrees)	Total Depth (m)		From* (m)	To* (m)	Length** (m)	Au (ppm)	
BHSE-176	0	-90	183		0	7.62	7.62	2.63	oxide
				<i>incl.</i>	4.57	6.1	1.52	8.72	oxide
					21.34	39.62	18.29	8.44	oxide
				<i>incl.</i>	24.38	33.53	9.14	16.3	oxide
					24.38	27.43	3.05	31.4	oxide
					115.82	129.54	13.72	0.97	oxide
BHSE-177	0	-90	184		0	18.29	18.29	0.87	oxide
					65.53	114.3	48.77	1.00	oxide
					150.88	178.31	27.43	0.51	oxide
BHSE-178	0	-90	166		3.05	62.48	59.44	0.63	oxide
				<i>incl.</i>	3.05	30.48	27.43	0.84	oxide
BHSE-179	0	-90	285		231.65	268.22	36.58	0.71	mixed
				<i>incl.</i>	233.17	248.41	15.24	1.03	mixed
BHSE-180	270	-55	122		48.77	56.39	7.62	0.56	sulfide
BHSE-181	255	-75	142		48.77	53.34	4.57	0.50	oxide
BHSE-182	137	-75	250		48.77	67.06	18.29	1.58	mixed
BHSE-183	0	-90	274.39		<i>hole lost before target depth</i>				oxide
BHSE-184	0	-90	169.17		3.05	21.34	18.29	0.93	oxide
					48.77	64.01	15.24	0.51	oxide
BHSE-186	0	-90	117.35		4.57	10.67	6.1	5.21	oxide
					47.24	73.15	25.91	0.77	oxide
				<i>incl.</i>	48.77	57.91	9.14	1.09	oxide
BHSE-187	0	-90	338.33		266.7	292.61	25.91	2.18	sulfide
				<i>incl.</i>	266.7	274.32	7.62	4.49	sulfide
BHSE-189	0	-90	320		<i>Anomalous gold below cutoff</i>				
* Drilling and sampling conducted in feet. Intervals are converted from feet to meters for reporting.									
** Drill Thickness: True Thickness undetermined.									

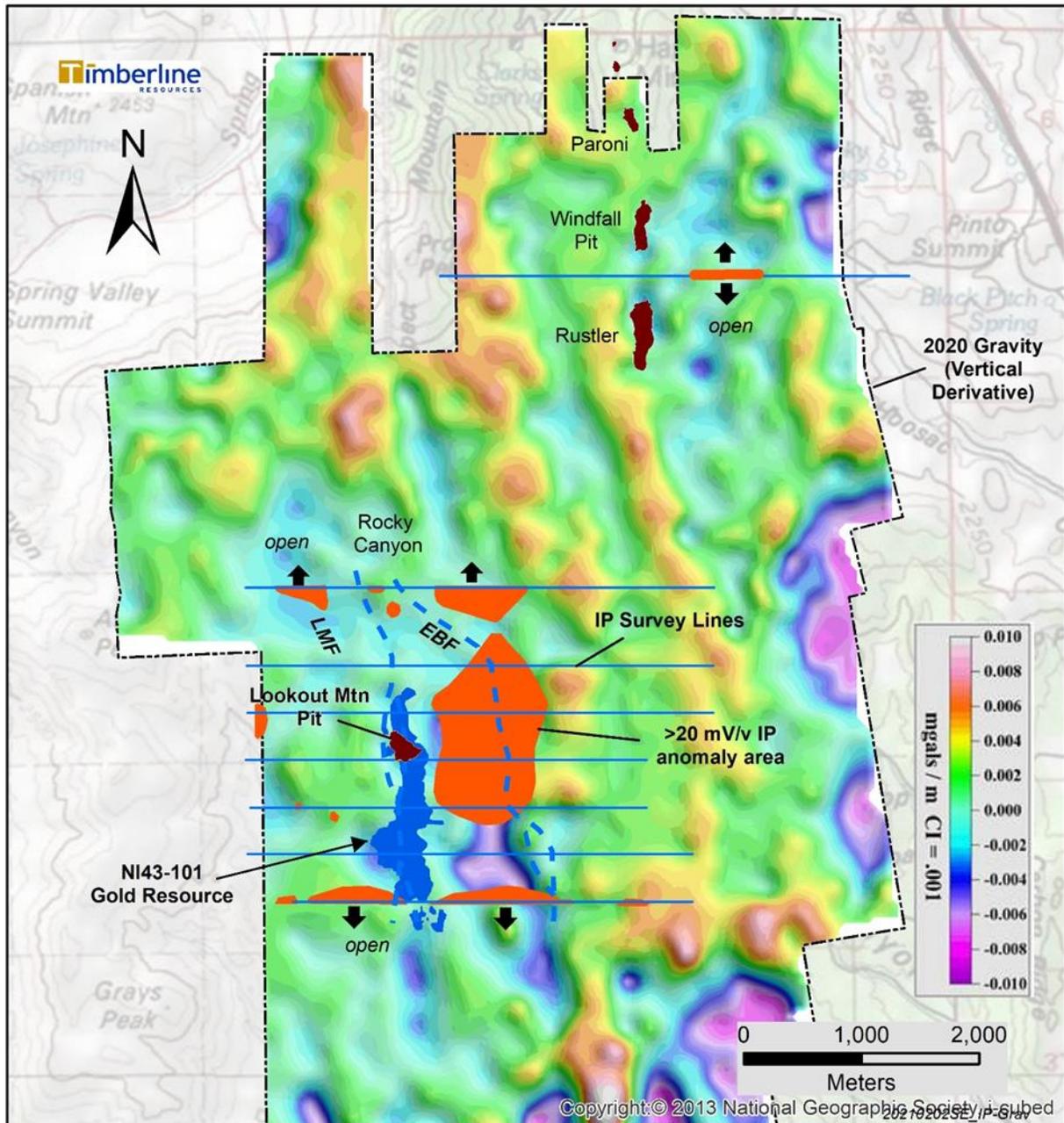
Sampling Methodology, Chain of Custody, Quality Control and Quality Assurance

Collection of reverse circulation percussion drill samples and diamond drill core was completed under the supervision of a Company representative, Steven Osterberg. Personnel from Timberline or the drilling contractors transported the RC and core samples to Timberline's secure Eureka facility where samples were logged and prepared for transport to the lab. Senior geologists directed the cutting and sampling of the core and selection of representative samples for assay. Quality control was monitored by the insertion of numerous blind certified standard reference materials, field duplicates, and blanks into each sample shipment. Company representatives completed sample dispatch paperwork and delivered the samples to ALS USA Inc. (ALS) in Elko, Nevada for sample preparation. Drill samples were assayed by ALS in Reno, Nevada for gold by fire assay of a 30-gram charge with an AA or ICP-ES finish (ALS code Au-AA23). The overlimits for gold samples assaying above 10 g/t were determined by a 30-gram fire assay with gravimetric finish. In addition, highly mineralized samples (>0.2 g/t Au) were submitted for multi-element analysis (33 elements) by four-acid digestion and ICP-ES determination (code ME-ICP61).

Geophysical Surveys

On February 3, 2021, Timberline announced results of an IP geophysical survey (see Figures 2 and 3) completed concurrently with the 2020 drilling at Eureka. The IP survey included 28.4 line-kilometers over eight lines focused primarily along the Lookout Mountain trend. IP can be an effective tool for mapping subsurface electrical characteristics of the rocks related to the distribution of sulfide minerals and organic carbon, which are often associated with Carlin-type gold deposits. IP surveys may also help map fault structures that are related to or crosscut mineralization. Timberline previously reported a district-scale gravity survey at Eureka (see Company news release dated Nov 2, 2020 at <http://timberlinerresources.co/press-releases>). These two large-scale geophysical surveys are complementary, and Timberline has developed a fully integrated interpretation of these data with the growing geological database, which includes drilling, mapping, surface sampling, and modeling.

Figure 2. Plan Map Showing 2020 IP Survey Lines and Anomalies over Gravity Vertical Derivative Base Map

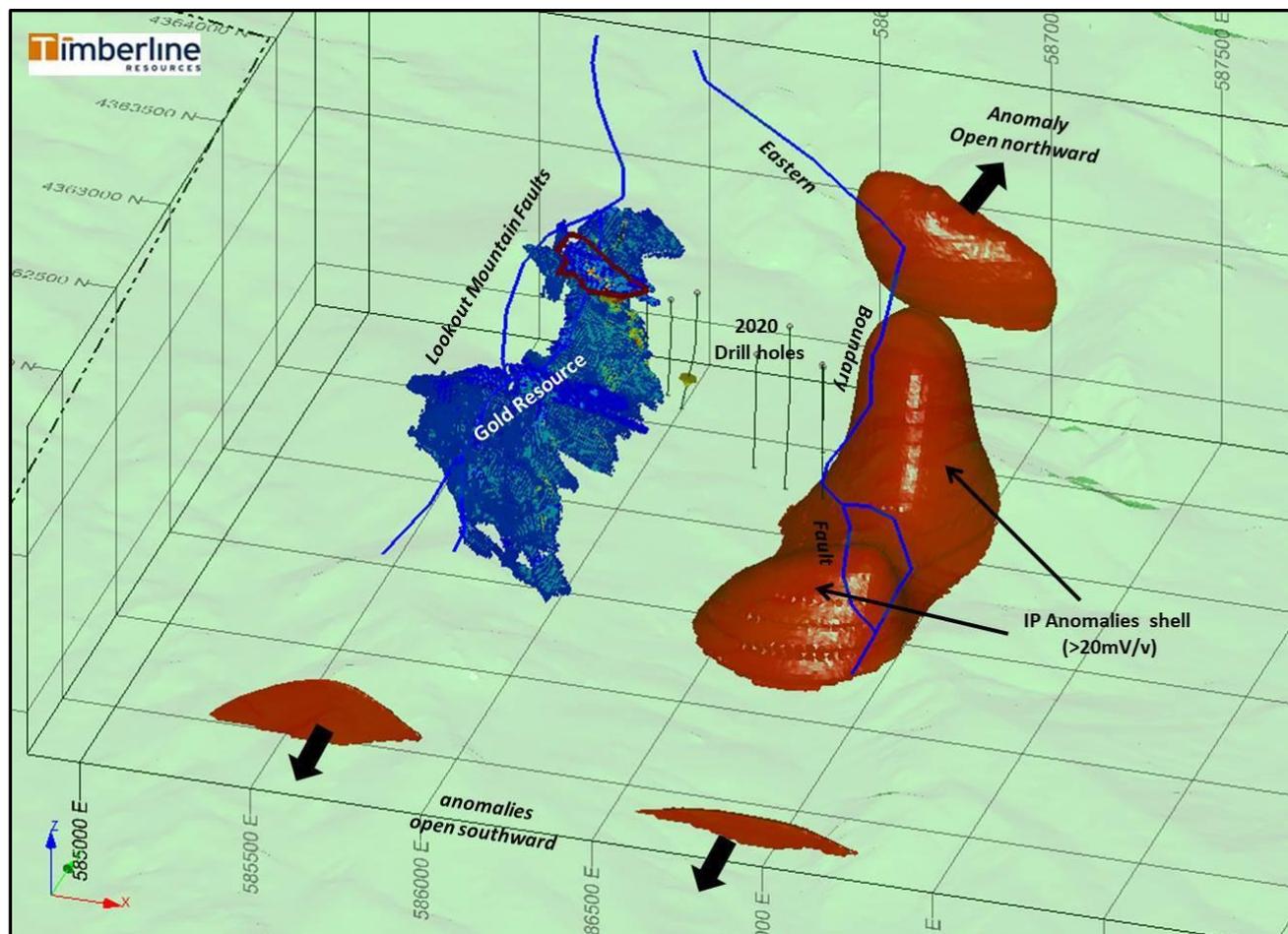


Highlights of the IP survey at Lookout Mountain include:

- A strong chargeability anomaly spanning at least two kilometers in a north-south direction east of the Lookout Mountain gold resource (Figure 3); and
- Identified two major fault zones: the Lookout Mountain Fault (LMF) which is associated with known gold mineralization, and the East Bounding Fault (EBF) which is undrilled.

At Windfall, located approximately 6 km northeast of Lookout Mountain, the Company completed a single east-west IP test line between the Windfall and Rustler historic open pits (Figure 4). As at Lookout Mountain, a distinct chargeability anomaly occurs east of the known mineralization which includes numerous drill holes with high grade gold (≥ 3 g/t) intercepts. A more extensive IP survey in the Windfall area is planned for 2021.

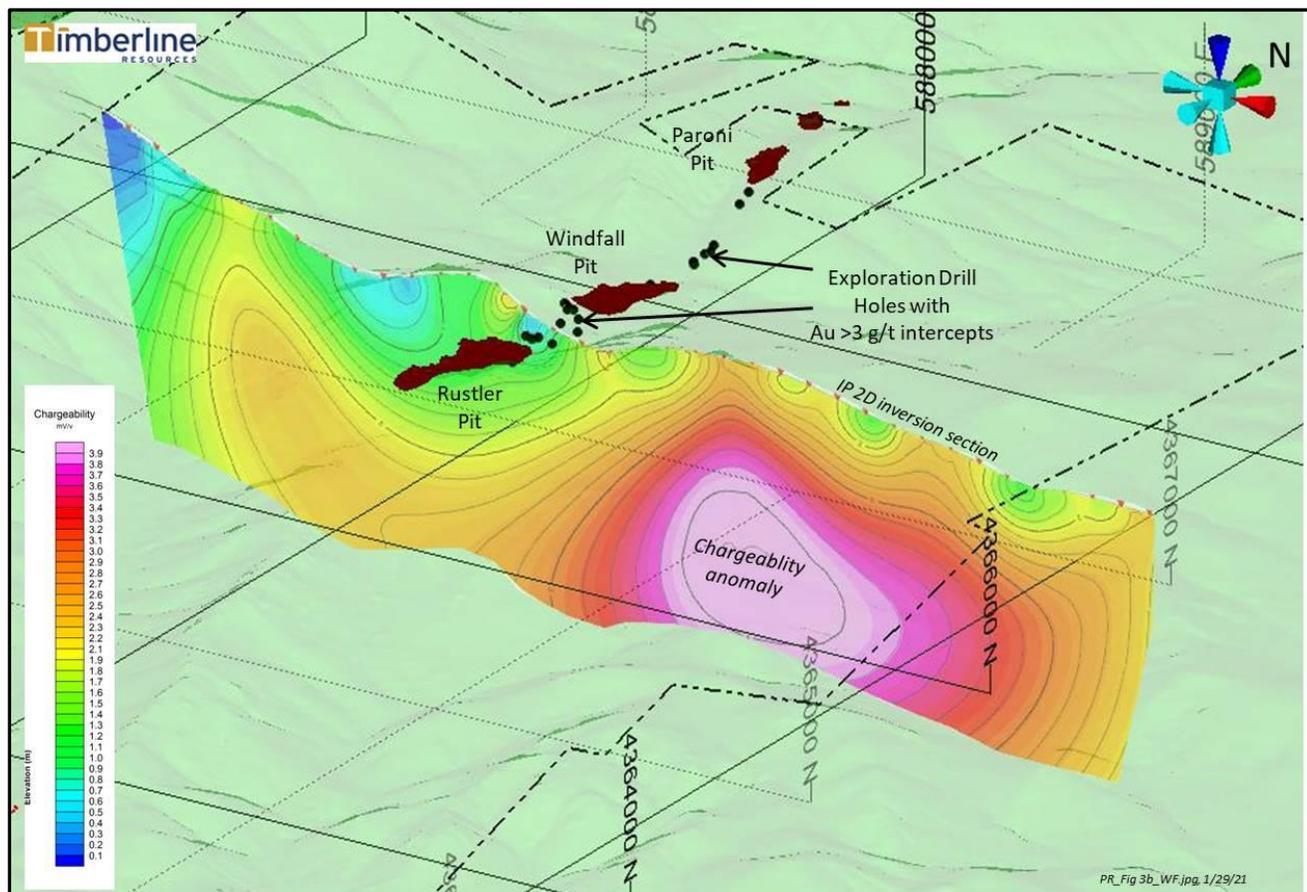
Figure 3. 3D View of Lookout Mountain Gold Resource and New IP Anomalies with 2020 Drillholes
(Note: looking northwest with grid lines on 1,000 m spacing)



Integrated Geological Analysis and 2021 Exploration Planning

The 2020 exploration program at Eureka included drilling, geophysics, logging of new and historical drill core and cuttings, and geologic modeling. Gold mineralization at Eureka is hosted by sedimentary rocks including shale and interbedded limestone and dolomite. Host rocks are variably but often intensely silicified, decalcified, sulfidized, argillized, and subsequently oxidized. Porosity and permeability are created in these systems by leaching of the calcite and volume losses created by dolomitization, fracturing, and brecciation. Iron also appears to be introduced along with hydrothermal dolomite. Many shallow gold intercepts are hosted by oxidized jasperoid and chalcedonic silica, sometimes with high gold grades. Collectively these patterns of alteration are consistent with those observed in Carlin-type gold deposits. Gold is concentrated along moderate to steeply dipping faults and along contacts within the Cambrian and Silurian-Devonian age stratigraphy (Figure 5). Clustered, higher grade intercepts occur at the Water Well - North Lookout, South Lookout, and Rocky Canyon Zones (Figure 6). These areas are all inadequately drilled and are targeted for new drilling in 2021.

Figure 4. Windfall Target 3D Perspective with 2D IP Inversion Section
(Note: looking northwest with grid lines on 1,000 m spacing)

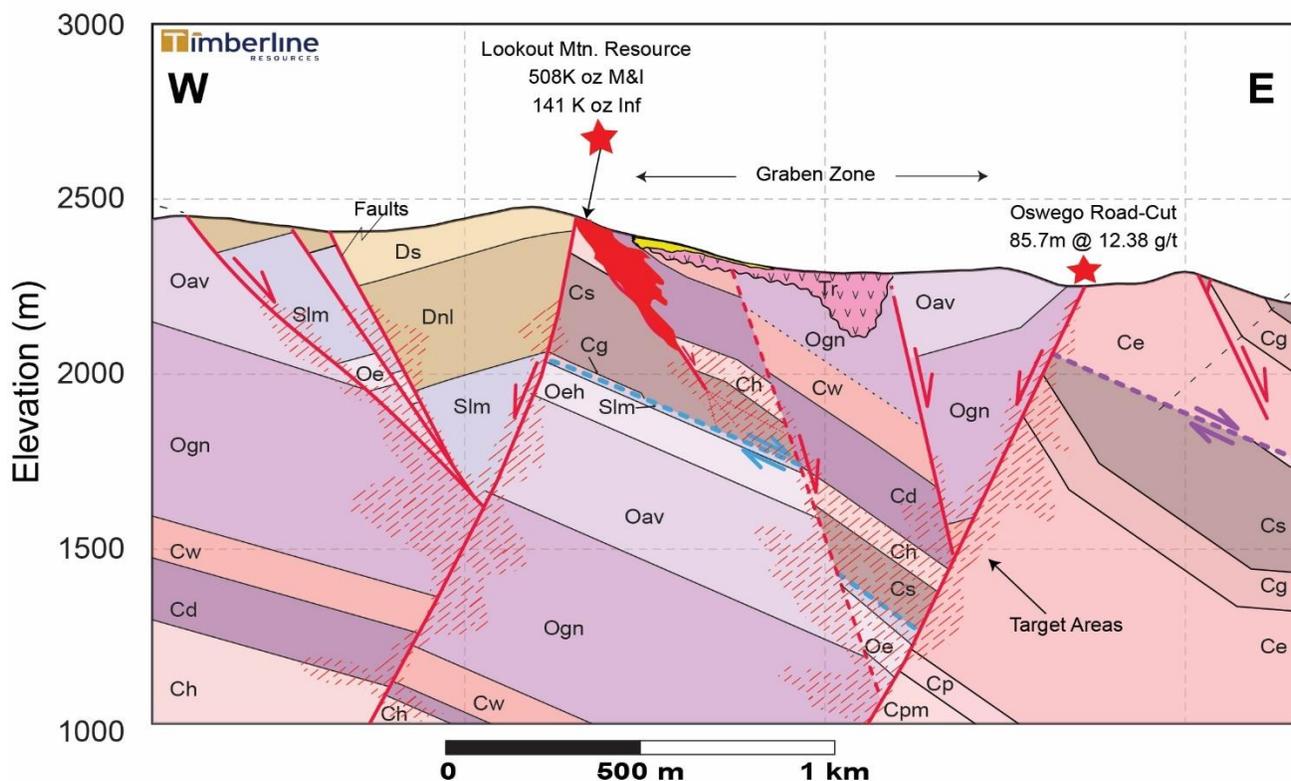


While the Lookout Mountain mineral system has been documented by previous drilling as extending two kilometers north and nearly four kilometers south from the historic Lookout Pit, the 2020 drilling and geophysics campaign helped link the known mineral system to deeper geophysical anomalies and new extensions to the east. It is clear now that the Lookout Mountain mineral system has a much wider footprint than previously thought and it appears to be linked to a significant geophysical anomaly at depth. Timberline's structural understanding of the Lookout Deposit and the Graben Zone to the east was also markedly improved by the 2020 exploration program and its follow-up into the first quarter of 2021 (Figure 5).

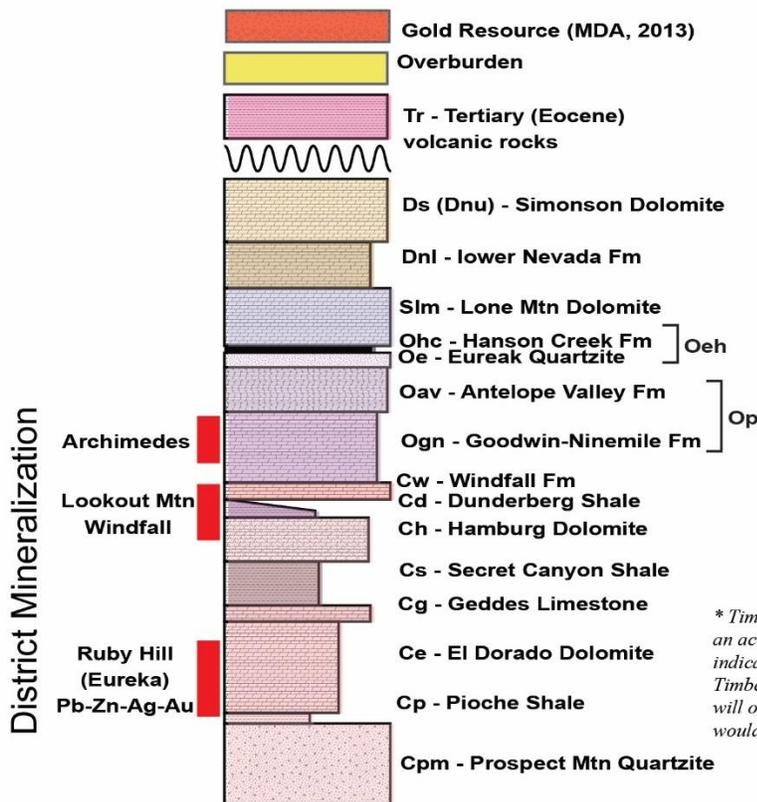
Work along the Windfall Trend came late in the 2020 field season, but compilation and modeling of historic data continues at the time of this writing. We have reported significant historical drill intercepts between the pits and the single line of IP data indicates apparent targets downdip and to the east. Overall, the setting at Windfall appears to be highly analogous to the Lookout Trend, but much less modern work has been conducted there. It is clear that the Windfall Trend is rich in targets and these will be assessed with geophysical surveys and mapping planned for 2021. Drill targets may emerge at Windfall by later summer of 2021.

Timberline issued a news release on April 1, 2021 discussing the progress made during the 2020 field season and the exploration plans for 2021. At the time of this writing, it is premature to state with certainty the scale of the exploration program or specifics of drilling planned for 2021. However, Timberline expects to put forward a program that will include significant geophysics (CSAMT, IP, and gravity), extensive geological mapping and surface sampling, and drilling of approximately 6,000 meters or more. If successful in financing and delivering a drill program of this scale, that would constitute an increase of almost 60% from the 2020 drill program.

Figure 5. Preliminary Lookout Mountain Geologic Cross Section and Schematic Gold Targets

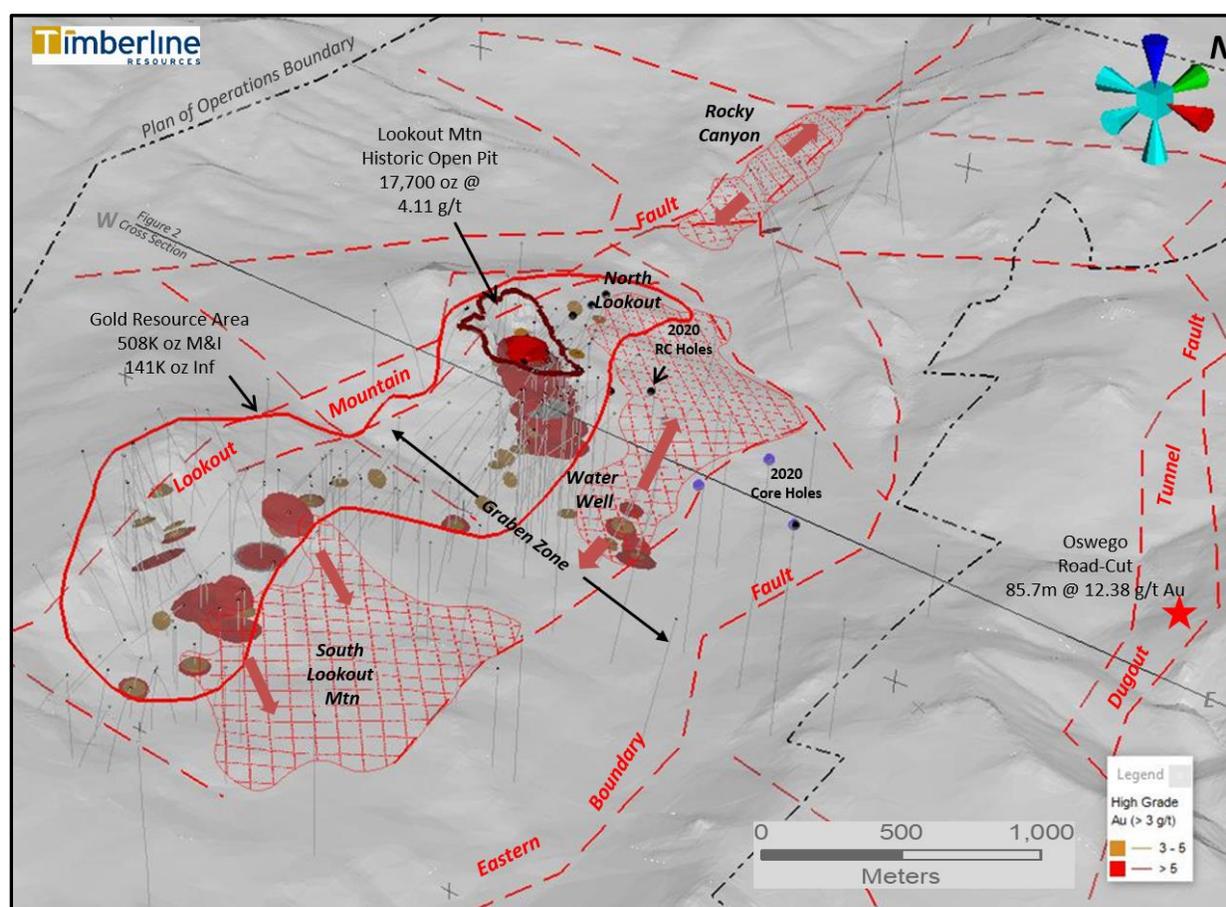


Generalized stratigraphy of units displayed in cross section



* Timberline cautions that similar geology to an active or past-producing mine does not indicate that mineralization will occur on Timberline's property, and if present, that it will occur in sufficient quantity or grade that would be economic to mine.

Figure 6. 2021 Target Zones (red hatch) along the Lookout Mountain Trend with Historic Drilling. Red Discs Indicate Gold Intercepts Higher than 5 g/t.



Results of Operations for the six months ended March 31, 2021 and 2020

Consolidated Results

(US\$)	Three Months Ended March 31,		Six Months Ended March 31,	
	2021	2020	2021	2020
Exploration expenses:				
Eureka	\$ 129,312	\$ 12,749	\$ 1,141,349	\$ 159,231
Other exploration properties	94,234	-	258,723	-
Total exploration expenditures	223,546	12,749	1,400,072	159,231
Non-cash expenses:				
Stock option expenses	-	-	127,022	161,100
Depreciation, amortization and accretion	1,408	2,133	2,816	4,165
Accretion of discount on senior note payable	-	15,767	-	31,787
Loss on extinguishment of debt	-	-	-	195,611
Total non-cash expenses	1,408	17,900	129,838	392,663
Professional fees expenses	46,305	50,614	120,873	119,465
Insurance expenses	38,818	33,436	63,601	52,178
Salaries and benefits expenses	78,261	67,324	155,918	120,514
Interest and other (income) expense	16,810	36,986	30,052	78,434
Other general and administrative expenses	80,011	96,017	168,918	157,160
Net loss	\$ 485,159	\$ 315,026	\$ 2,069,272	\$ 1,079,645

Our consolidated net loss for the three months ended March 31, 2021 was \$485,159, compared to a consolidated net loss of \$315,026 for the three months ended March 31, 2020. As a result of the consolidation of Lookout Mountain LLC, total exploration expenses of \$223,546 were recorded on our statement of operations for the three months ended March 31, 2021, compared with \$12,749 for the three months ended March 31, 2020. The year-over-year increase in net loss is due to the significant increase in exploration expenses made possible by the infusion of cash that occurred near the close of fiscal year 2020, an increase in salaries and benefits resulting from adding an additional corporate officer, and increases in investor and legal fees resulting from costs associated with the preparation for the shareholder meeting held in April 2021, offset by reduced investor relations consulting fees during the three months ended March 31, 2021. These cost increases were offset by the reduction of interest expense and accretion of the discount on senior notes payable as a result of paying off significant debt late in fiscal year 2020. Insurance expense was somewhat higher in the comparative period due to the normal increases the industry is experiencing.

Our consolidated net loss for the six months ended March 31, 2021 was \$2,069,272, compared to a consolidated net loss of \$1,079,645 for the six months ended March 31, 2020. As a result of the consolidation of Lookout Mountain LLC, total exploration expenses of \$1,400,072 were recorded on our statement of operations for the six months ended March 31, 2021, compared with \$159,231 for the six months ended March 31, 2020. The year-over-year increase in net loss is due to the significant increase in exploration expenses made possible by the infusion of cash that occurred near the close of fiscal year 2020, an increase in salaries and benefits resulting from adding an additional corporate officer, all of which were offset by the non-recurrence of the loss on modification of debt, and the reduction of interest expense and accretion of the discount on senior notes payable as a result of paying off significant debt late in fiscal year 2020. Insurance expense was somewhat higher in the first six months of 2021 due to the normal increases the industry is experiencing. Additionally, non-cash stock option expenses decreased slightly with the reduced number of options granted and the application of variables to their fair values in the most recent period compared to the six months ended March 31, 2020.

Subject to adequate funding in 2021, we expect to continue to incur exploration expenses for the advancement of our Eureka Project.

Financial Condition and Liquidity

At March 31, 2021, we had assets of \$15,186,062, consisting of cash of \$763,937; property, mineral rights and equipment of \$13,801,275, net of depreciation, reclamation bonds of \$538,696, and prepaid expenses, deposits and other assets in the amount of \$82,154.

On March 31, 2021, we had total liabilities of \$716,726 and total assets of \$15,186,062. This compares to total liabilities of \$792,085 and total assets of \$16,886,921 on September 30, 2020. As of March 31, 2021, our liabilities consist of \$115,431 for asset retirement obligations, \$300,000 of senior unsecured note payable – related party, and \$109,520 of trade payables and accrued liabilities and \$191,775 of interest and expenses payable to related parties. Of these liabilities, \$301,295 are due within twelve months. The liabilities compared to September 30, 2020 have changed as a result of a decrease in accrued payables offset by increases in accrued liabilities and accrued interest - related party. The decrease in total assets was due to the usage of cash to reduce accounts payable and to pay Company operating expenses.

On March 31, 2021, we had working capital of \$539,096 and stockholders' equity of \$14,469,336 compared to working capital of \$2,155,400 and stockholders' equity of \$16,094,836 for the year ended September 30, 2020. Working capital experienced an unfavorable change because of the decrease in cash associated payments of accounts payable and operating expenses, offset by increases in accrued expenses – related party and accrued interest - related party.

During the six months ended March 31, 2021, we used cash from operating activities of \$2,079,919, compared to cash used of \$505,517 for the six months ended March 31, 2020. The use of cash from operating activities results primarily from the net loss of \$2,069,272 for the six-month period ended March 31, 2021 compared to net loss of \$1,079,645 for the six months ended March 31, 2020. Changes to the net loss for the comparative periods are described above.

During the six-month period ended March 31, 2021, cash of \$6,380 was provided by investment activities, compared with cash of \$70,709 provided for the six-month period ended March 31, 2020. During the six months ended March 31, 2021, we received \$52,380 for lease payments to us for company-owned mineral properties offset by \$46,000 paid for mineral rights, compared to cash received of \$12,500 for refunds of reclamation bonds paid previously and \$58,209 for lease payments to us for company-owned mineral properties for the six months ended March 31, 2020.

During the six-month period ended March 31, 2021, \$316,750 was provided by financing activities, compared to cash of \$571,716 provided during the six-month period ended March 31, 2020. For the six-month period ended March 31, 2020, cash of \$600,000 was provided through the sale of stock and warrants, net of offering costs, and \$28,294 cash was used for payment of the payment obligation.

Going Concern:

The audit opinion and notes that accompany our consolidated financial statements for the year ended September 30, 2020 disclose a 'going concern' qualification to our ability to continue in business. 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. Market disruptions and alternative investment options, 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, corporate transactions, credit facilities or debenture issuances in order to continue as a going concern.

The consolidated financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern. We believe that the going concern condition cannot be removed with confidence until the Company has entered into a business climate where funding of its activities is more assured. If the going concern basis were not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used.

At March 31, 2021, we had working capital of \$539,096. We have a cash balance of approximately \$763,937 and approximately \$301,295 outstanding in current liabilities. As of the date of this report on Form 10-Q, we have sufficient cash to meet our normal operating commitments for the next 12 months. Therefore, we do not expect to be required to engage in financial transactions to increase our cash balance or decrease our cash obligations in the near term. However, we are an exploration company with exploration programs that require significant cash expenditures. A significant drilling program, such as those we have planned, will result in depletion of cash and return us to a position of insufficient cash to support normal operations for the following 12 months. Cash-raising efforts may include equity financings, corporate transactions, joint venture agreements, sales of assets, credit facilities or debenture issuances, or other strategic transactions.

We plan, as funding allows, to follow up on our positive drill results on our Eureka and Paiute Projects. Principally, we plan to execute drilling as part of the ongoing exploration program at Eureka. 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 will require additional funding and/or reductions in exploration and administrative expenditures in future periods. 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.

Financing Activities

None

Subsequent Events

Subsequent to March 31, 2021, holders of Class D and Class H Warrants exercised a total of 2,150,000 warrants for \$0.14 per share and received 2,150,000 shares of the Company's common stock for total cash proceeds of \$301,000 to the Company.

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 - Carrying Value of Property, Mineral Rights and Equipment

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 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 its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment or abandonment 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 Target on our Eureka Project, and our Paiute 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 Form 10-Q, an evaluation was carried out under the supervision of and with the participation of our management, including the Principal Executive Officer and the Principal Financial Officer of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a – 15(e) and Rule 15d – 15(e) under the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that our disclosure controls and procedures were not 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 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.

Disclosure controls and procedures were not effective due primarily to a material weakness in the segregation of duties in the Company's internal control of financial reporting.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)), that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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, 2020, which was filed with the SEC on January 13, 2021.

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

All sales of unregistered equity securities during the fiscal quarter covered by this Quarterly Report on Form 10-Q were previously reported 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 six months ended March 31, 2021, 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 incorporated by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on August 11, 2016.](#)
- 4.3 [Form of Warrant Agreement for March and April 2017 Offering of Units, incorporated by reference to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 15, 2017.](#)
- 4.4 [Form of the Series H Warrant, incorporated by reference to exhibit 99.1 to the Company's Form 8-K as filed with the Securities and Exchange Commission on April 1, 2019](#)
- 4.5 [Form of the Series G Warrant, incorporated by reference to exhibit 4.4 to the Company's Form 10-Q as filed with the Securities and Exchange Commission on August 14, 2019](#)
- 4.6 [Form of the Series I Warrant, incorporated by reference to exhibit 4.8 to the Company's Form 10-K as filed with the Securities and Exchange Commission on Jan 10, 2020](#)
- 4.7 [Form of the Series J Warrant, incorporated by reference to exhibit 4.5 to the Company's Form 8-K as filed with the Securities and Exchange Commission on October 25, 2019](#)
- 4.8 [Form of the Series K Warrant, incorporated by reference to exhibit 4.8 to the Company's Form 10-K as filed with the Securities and Exchange Commission on January 13, 2021](#)
- 4.9 [Form of the Series L Warrant, incorporated by reference to exhibit 4.1 to the Company's Form 8-K as filed with the Securities and Exchange Commission on September 1, 2020](#)
- 31.1* [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(Rules 13a-14 and 15d-14 of the Exchange Act\)](#)
- 31.2* [Certification of 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 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(18 U.S.C. 1350\)](#)
- 32.2* [Certification of 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/ Patrick Highsmith

Patrick Highsmith
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 14, 2021

By: /s/ Ted R. Sharp

Ted R. Sharp
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: May 14, 2021

Exhibit 31.1

CERTIFICATION

I, Patrick Highsmith, 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 (fourth 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 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:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2021

By: /s/ Patrick Highsmith
Patrick Highsmith, President, Chief Executive Officer and Principal Executive Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION

I, Ted R. Sharp, 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 (fourth 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 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:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2021

By: /s/ Ted R. Sharp
Ted R. Sharp, Chief Financial Officer, Principal Financial Officer

A signed original of this written statement has been provided to the registrant and will be retained by the registrant to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

**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 period ending March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick Highsmith, Chief Executive Officer, President and Principal 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 Timberline Resources Corporation.

/s/ Patrick Highsmith

Patrick Highsmith, Chief Executive Officer and President

DATE: May 14, 2021

A signed original of this written statement required by Section 906 has been provided to Timberline Resources Corporation and will be retained by Timberline Resources Corporation to be furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**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 period ending March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ted R. Sharp, Chief Financial Officer and Principal 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 Timberline Resources Corporation.

/s/ Ted R. Sharp

Ted R. Sharp, Chief Financial Officer

DATE: May 14, 2021

A signed original of this written statement required by Section 906 has been provided to Timberline Resources Corporation and will be retained by Timberline Resources Corporation to be furnished to the Securities and Exchange Commission or its staff upon request.