

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, 2018

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, 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

Accelerated Filer

Non-Accelerated Filer

Small Reporting Company

(Do not check if a smaller 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 10, 2018: 43,527,819

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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

	March 31, 2018 (unaudited)	September 30, 2017 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 15,318	\$ 67,154
Prepaid expenses	204,788	20,716
Accounts receivable	-	2,633
TOTAL CURRENT ASSETS	<u>220,106</u>	<u>90,503</u>
 PROPERTY, MINERAL RIGHTS AND EQUIPMENT, net	 <u>13,947,319</u>	 <u>17,125,519</u>
 OTHER ASSETS:		
Restricted cash	285,128	285,128
Deposits and other assets	9,750	9,750
TOTAL OTHER ASSETS	<u>294,878</u>	<u>294,878</u>
 TOTAL ASSETS	 <u>\$ 14,462,303</u>	 <u>\$ 17,510,900</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 107,753	\$ 109,680
Accrued expenses	8,853	9,923
Accrued payroll, benefits and taxes	70,269	85,730
Payment obligation	212,273	250,000
TOTAL CURRENT LIABILITIES	<u>399,148</u>	<u>455,333</u>
 LONG-TERM LIABILITIES:		
Asset retirement obligation	156,718	152,940
TOTAL LONG-TERM LIABILITIES	<u>156,718</u>	<u>152,940</u>
 COMMITMENTS AND CONTINGENCIES (Notes 5 and 10)	 -	 -
 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, 36,027,819 and 33,146,952 shares issued and outstanding, respectively	36,028	33,147
Additional paid-in capital	71,434,030	70,408,144
Accumulated deficit	(57,563,621)	(53,538,664)
TOTAL STOCKHOLDERS' EQUITY	<u>13,906,437</u>	<u>16,902,627</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$ 14,462,303</u>	 <u>\$ 17,510,900</u>

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
OPERATING EXPENSES:				
Mineral exploration	\$ 21,094	\$ 36,392	\$ 47,268	\$ 82,120
Abandonment of mineral rights	3,231,700	-	3,231,700	-
Salaries and benefits	231,266	109,400	314,520	185,934
Professional fees	28,025	46,425	100,571	138,240
Insurance expense	24,057	23,517	47,236	43,643
Gain on disposal of equipment	-	-	-	(2,500)
Other general and administrative	155,588	328,032	288,092	401,118
TOTAL OPERATING EXPENSES	<u>3,691,730</u>	<u>543,766</u>	<u>4,029,387</u>	<u>848,555</u>
LOSS FROM OPERATIONS	<u>(3,691,730)</u>	<u>(543,766)</u>	<u>(4,029,387)</u>	<u>(848,555)</u>
OTHER INCOME (EXPENSE):				
Foreign exchange gain (loss)	(122)	123	(89)	(798)
Interest expense	(3,943)	-	(10,114)	-
Gain on sale of available-for-sale securities	-	23,826	-	23,826
Miscellaneous other income	-	2	14,633	5
TOTAL OTHER INCOME (EXPENSE)	<u>(4,065)</u>	<u>23,951</u>	<u>4,430</u>	<u>23,033</u>
LOSS BEFORE INCOME TAXES	<u>(3,695,795)</u>	<u>(519,815)</u>	<u>(4,024,957)</u>	<u>(825,522)</u>
INCOME TAX PROVISION (BENEFIT)	<u>-</u>	<u>11,632</u>	<u>-</u>	<u>32,632</u>
NET LOSS	<u>(3,695,795)</u>	<u>(531,447)</u>	<u>(4,024,957)</u>	<u>(858,154)</u>
OTHER COMPREHENSIVE INCOME (LOSS):				
Unrealized gain (loss) on available-for-sale equity securities, net of tax	-	-	-	(39,000)
Reclassification of (gain) on available-for-sale securities sold	-	(21,601)	-	(21,601)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	<u>-</u>	<u>(21,601)</u>	<u>-</u>	<u>(60,601)</u>
COMPREHENSIVE LOSS	<u>\$ (3,695,795)</u>	<u>\$ (553,048)</u>	<u>\$ (4,024,957)</u>	<u>\$ (918,755)</u>
NET LOSS PER SHARE AVAILABLE TO COMMON STOCKHOLDERS, BASIC AND DILUTED	<u>\$ (0.10)</u>	<u>\$ (0.02)</u>	<u>\$ (0.11)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	<u>36,027,819</u>	<u>25,244,952</u>	<u>35,296,269</u>	<u>24,669,699</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,024,957)	\$ (858,154)
Adjustments to reconcile net loss to net cash used by operating activities:		
Deferred income tax provision	-	32,632
Gain on disposal of equipment	-	(2,500)
Stock-based compensation	207,000	15,000
Abandonment of mineral properties	3,231,700	-
Accretion of asset retirement obligation	3,778	3,598
Gain on sale of available-for-sale securities	-	(23,826)
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(184,072)	(11,824)
Accounts receivable	2,633	(2,633)
Accounts payable	(1,927)	2,017
Accrued expenses	(1,070)	(48,150)
Accrued payroll, benefits and taxes	(15,461)	9,634
Net cash used by operating activities	<u>(782,376)</u>	<u>(884,206)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, mineral rights and equipment	(53,500)	(1,051,000)
Proceeds from disposal of equipment	-	2,500
Proceeds from sale of available-for-sale securities	-	77,856
Refund of reclamation and road use bonds	-	379,175
Net cash (used) by investing activities	<u>(53,500)</u>	<u>(591,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of units, net	821,767	1,538,750
Proceeds from subscriptions agreements	-	100,000
Payment obligation	(37,727)	-
Net cash provided by financing activities	<u>784,040</u>	<u>1,638,750</u>
Net increase (decrease) in cash and cash equivalents	(51,836)	163,075
CASH AT BEGINNING OF PERIOD	67,154	82,275
CASH AT END OF PERIOD	<u>\$ 15,318</u>	<u>\$ 245,350</u>
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Common stock payable for mineral rights	-	480,000

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- a. *Basis of Presentation and Going Concern* – The accompanying unaudited consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America for interim financial information, as well as the instructions to Form 10-Q. Accordingly, the financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of our management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three and six month periods ended March 31, 2018 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2018. 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, 2017.

The consolidated financial statements for the three and six month periods ended March 31, 2018 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. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

- 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 outstanding securities, in periods of future income as of March 31, 2018 and 2017, would be as follows:

	<u>2018</u>	<u>2017</u>
Stock options	2,980,000	2,297,085
Warrants	20,840,873	16,155,006
Total possible dilution	<u>23,820,873</u>	<u>18,452,091</u>

At March 31, 2018 and 2017, the effect of the Company’s outstanding options and warrants 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

d. *Available-for-sale equity securities* – Available-for-sale equity securities are recorded at fair value. Unrealized gains and losses relating to equity securities classified as available-for-sale are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity unless an other-than-temporary impairment in value has occurred, in which case such accumulated loss would be charged to current period net income (loss). Unrealized gain and losses originally included in accumulated other comprehensive income are reclassified to the current period net income (loss) when the sale or determination of other-than-temporary-impairment of securities occurs. Realized gains and losses on the sale of securities are recognized on a specific identification basis.

e. *New accounting pronouncements:*

Statement of cash flows – Restricted cash - In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows - Restricted Cash." ASU No. 2016-18 requires that restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. ASU No. 2016-18 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently assessing the adoption of this standard's impact on its financial statements.

Compensation – Stock compensation – In May 2017, the FASB issued ASU No. 2017-09, "Compensation - Stock Compensation." ASU No. 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. ASU No. 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company believes adoption of this standard will not have a material impact on its financial statements.

f. *Restricted cash* – Cash that is restricted as to withdrawal or use under the terms of certain contractual arrangements, generally with regulatory agencies, is recorded in *Other Assets* as *Restricted cash* on our balance sheet.

g. *Reclassifications* - Certain reclassifications have been made to prior periods' balances to conform with the current period's presentation. These reclassifications have no effect on previously reported results from operations or net equity as previously disclosed.

NOTE 3 – FAIR VALUE MEASUREMENTS:

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

	<u>March 31, 2018</u>	<u>September 30, 2017</u>	<u>Input Hierarchy Level</u>
Assets:			
Cash	\$ 15,318	\$ 67,154	Level 1
Restricted cash	285,128	285,128	Level 1

NOTE 4 – PREPAID EXPENSES:

Any expenses paid prior to the related services being rendered will be recorded as prepaid expenses. At March 31, 2018 prepaid expenses included \$166,667 related to a prepaid marketing consulting agreement, with the remainder related to prepaid insurance premiums and prepaid annual exchange listing fees.

NOTE 5 – 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 and was amended on October 19, 2016 (“Amended Agreement”). Pursuant to the Agreement, Gunpoint granted us an exclusive and irrevocable option (“Option”) to purchase a 100% interest in Gunpoint’s Talapoosa project (the “Project”) in western Nevada. We acquired 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”). Pursuant to the Amended Agreement, we had the right to exercise the Option through March 31, 2019 (“Amended Option Period”), subject to certain interim payments and cumulative project expenditures.

As consideration for the Option, we issued two million (2,000,000) shares of common stock and paid \$300,000 in cash. The common stock was valued at fair value on the Effective Date and combined with the cash payments of \$300,000 for total consideration of \$1,500,000. The common stock was issued on March 31, 2015 into escrow with periodic releases to Gunpoint. The shares were irrevocable and were 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. All of the shares have been released from escrow. Gunpoint retained the total of 2,000,000 shares, even though we did not exercise the Option.

Pursuant to the Amended Agreement, during the Amended Option Period, we were required to make the following expenditures and stock issuances in order to retain the Option:

- Payment of \$1 million and issuance of one million common shares of the Company by March 31, 2017 (completed – the shares were valued at \$480,000, the quoted value of the shares at issuance);
- Payment of \$2 million and issuance of one million common shares of the Company by March 31, 2018;
- Cumulative project expenditures of a minimum of \$7.5 million by December 31, 2018;
- Final payment of \$8 million and issuance of 1.5 million common shares of the Company by March 31, 2019.

We did not make the payment of \$2 million nor issue the one million common shares of the Company by March 31, 2018, and, therefore, the Amended Agreement was terminated per its terms on March 31, 2018. As a result, in the three months ended March 31, 2018, we wrote off our entire investment of \$3,231,700 in the Talapoosa property option pursuant to the Amended Agreement. This was recognized as an abandonment of mineral rights during the period ended March 31, 2018.

NOTE 6 – ACCRUED EXPENSES:

As of March 31, 2018 and September 30, 2017, we had accrued \$8,853 and \$9,923 in expenses, respectively.

The components of the accrued expenses are:

<u>Description</u>	<u>March 31,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
Interest expense	\$ 3,853	\$ -
Other expenses	5,000	9,923
Total accrued expenses	<u>\$ 8,853</u>	<u>\$ 9,923</u>

NOTE 7 – PAYMENT OBLIGATION:

On September 12, 2017, we entered into an agreement (the “Payment Agreement”) with a creditor (the “Creditor”) to pay by way of a payment plan an existing obligation of \$250,000 (the “Debt”) related to a potential corporate transaction in 2015 that was not completed.

Pursuant to the Payment Agreement, we agreed to pay the Debt to the Creditor, including interest, on or before September 12, 2020. Interest accrues on the unpaid principal amount of the Debt at the prime rate, as such rate may change from time to time, plus 3% per annum. We agreed to pay the Creditor 5% of the gross proceeds of any funds raised, whether through equity sales, debt, or sales of assets. If the gross proceeds of any equity financing are at least \$1 million, then we agreed to also commence monthly installment payments of \$10,000 until the Debt is paid.

NOTE 7 – PAYMENT OBLIGATION (continued):

During the three months and six months ended March 31, 2018, we paid \$8,850 and \$43,213, respectively, to the Creditor, which represented 5% of the gross proceeds of two tranches of a private placement completed in December 2017. During the three months and six months ended March 31, 2018, \$7,684 and \$37,727, respectively, was applied to principal of the Debt and \$1,166 and \$5,486, respectively, was applied to interest. The payment made during the three months ended March 31, 2018 was paid in early January 2018 even though the final private placement proceeds were received in late December 2017. Interest on the Debt, in the amount of \$3,853, was included in accrued expenses at March 31, 2018. The obligation to commence monthly installment payments of \$10,000 until the Debt is paid has not yet been triggered because we have not completed a financing with gross proceeds of at least \$1 million.

NOTE 8 – COMMON STOCK, WARRANTS AND PREFERRED STOCK:

Private Placement

On October 12, 2017, we initiated a \$1,250,000 private placement offering of Units of the Company at a price of \$0.30 per Unit, with an over-allotment option to increase the offering by up to 20%, solely to persons who qualify as accredited investors (the "Offering").

Each Unit in the Offering consisted of one share of common stock of the Company and one common share purchase warrant (each a "Warrant"), with each Warrant exercisable to acquire an additional share of common stock of the Company at a price of \$0.45 per share until the warrant expiration date of October 31, 2022.

During the six months ended March 31, 2018, we closed the sale of two tranches of the Offering. In the aggregate, we sold a total of 2,880,867 Units at a price of \$0.30 per unit for gross proceeds of \$864,260 and net proceeds, net of offering costs, of \$821,767.

Stock Issued for Stock Options

We did not issue any stock pursuant to the exercise of stock options or stock unit awards during the three months or the six months ended March 31, 2018.

Warrants

During the six months ended March 31, 2018, 2,880,867 warrants were issued pursuant to the Offering. No warrants expired during the three or six months ended March 31, 2018. At March 31, 2018, there were 9,960,006 warrants outstanding with an exercise price of \$0.25 per share that expire on May 31, 2019, 8,000,000 warrants outstanding with an exercise price of \$0.40 per share that expire on January 31, 2020, and 2,880,867 warrants outstanding with an exercise price of \$0.45 that expire on October 31, 2022. In aggregate, as of March 31, 2018, there were 20,840,873 warrants outstanding at a weighted average exercise price of \$0.335.

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. There is no preferred stock issued as of March 31, 2018.

NOTE 9 – STOCK-BASED AWARDS:

During the three months ended March 31, 2018, 1,600,000 stock options with an exercise price of \$0.17 and a five-year term were granted to our employees and directors. All of the awarded stock options vested immediately. The fair value of all of the options that were granted and vested during the three months ended March 31, 2018 was \$192,000 (\$0.12 per option).

NOTE 9 – STOCK-BASED AWARDS (continued):

During the three months ended March 31, 2017, 250,000 stock options with an exercise price of \$0.33 and a three-year term were granted to a consultant company. The options vested quarterly over a one-year period. The fair value of the 62,500 options that were vested during the three months ended March 31, 2017 was \$15,000 (\$0.24 per option) and was classified as other general and administrative expense. The value of the remaining 187,500 options was \$45,000 and was recognized evenly over the following three quarters as the options vested, including \$15,000 that was recognized during the three months ended December 31, 2017, which is included in the compensation cost of options for non-employees for the six months ended March 31, 2018.

The value of the options was estimated on the date of grant with a Black-Scholes option-pricing model using the assumptions noted in the following table:

	<u>2018</u>	<u>2017</u>
Expected volatility	121.6%	128.2%
Stock price on date of grant	\$0.17	\$0.33
Expected dividends	-	-
Expected term (in years)	3	3
Risk-free rate	2.33%	1.68%
Expected forfeiture rate	0%	0%

For the three and six months ended March 31, 2018 and 2017, the total compensation cost of stock options for employees was \$120,000 and nil, respectively. These costs were classified under salaries and benefits expense.

For the three months ended March 31, 2018 and 2017, the total compensation cost of options for non-employees was \$72,000 and \$15,000, respectively. These costs were classified under other general and administrative expense.

For the six months ended March 31, 2018 and 2017, the total compensation cost of options for non-employees was \$87,000 and \$15,000, respectively. These costs were classified under other general and administrative expense.

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, 2017	2,233,334	\$ 0.41
Granted	1,600,000	0.17
Expired	<u>(853,334)</u>	<u>(0.43)</u>
Outstanding and exercisable at March 31, 2018	<u>2,980,000</u>	<u>\$ 0.28</u>
Weighted average fair value of options granted during the three months ended March 31, 2018		<u>\$ 0.12</u>
Average remaining contractual term of options outstanding and exercisable at March 31, 2018 (years)		<u>3.91</u>

The aggregate of options exercisable as of March 31, 2018 had an intrinsic value of nil, based on the closing price of \$0.17 per share of our common stock on March 31, 2018.

NOTE 10 – COMMITMENTS AND CONTINGENCIES:

Mineral Exploration

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

Pursuant to the Amended Option Agreement at Talapoosa (see Note 5), we had an obligation to make a payment of \$2 million by March 31, 2018, which payment was not made and, therefore, the Amended Option Agreement was terminated per its terms on March 31, 2018. We have no future obligations related to the Amended Option Agreement at Talapoosa.

We pay federal and county claim maintenance fees on unpatented claims that are included in our mineral exploration properties. Should we continue to explore all of our mineral properties we expect annual fees to total approximately \$158,000 per year in the future.

While we recognize that we will not be able to meet these payments with our current cash balances, we do expect to make these payments with proceeds from expected capital raises. We expect to obtain additional capital through refunds of excess restricted cash held for exploration bonds and financing transactions such as equity investments, asset sales, joint ventures, debt facilities, or other types of strategic arrangements.

Real Estate Lease Commitments

As of March 31, 2018, the Company has no real estate lease commitments. The Company's office in Coeur d'Alene, Idaho and its facilities in Sparks, Nevada and Eureka, Nevada are rented on a month-to-month basis.

Total office lease and rental expense from continuing operations is included in the following line items in the consolidated statements of operations and comprehensive income (loss):

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Mineral exploration expenses	\$ 12,900	\$ 12,900	\$ 25,800	\$ 25,800
Other general and administrative expenses	10,500	10,500	21,000	21,000
Total	<u>\$ 23,400</u>	<u>\$ 23,400</u>	<u>\$ 46,800</u>	<u>\$ 46,800</u>

Employment Agreements

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

NOTE 11 – SUBSEQUENT EVENTS:

Eureka Property Lease Payments

Subsequent to March 31, 2018, our management and Board of Directors determined that certain payments received by the Company, which had been held and not recorded or deposited pending an expected resolution of circumstances relating to two historic leases at our Eureka property, should be deposited. The payments had been received from a third party with whom we are in discussions to resolve matters that had been under negotiation since we acquired the Eureka property. The funds are subject to potential return to the third party pending the outcome of the negotiations. The total amount of these payments received through April 2018 was \$70,772. Monthly payments in the amount of \$8,326 are expected to continue to be received, recorded and deposited until the situation concerning the leases is resolved.

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

The following discussion and analysis should be read in conjunction with our unaudited condensed interim consolidated financial statements as at and for the three and six months ended March 31, 2018 and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). This discussion and analysis contains forward-looking statements and forward-looking information that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements and information as a result of many factors, including, but not limited to, those set forth elsewhere in this Quarterly Report on Form 10-Q. See section heading "Note Regarding Forward-Looking Statements" below.

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and the exhibits attached hereto contain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Exchange Act of 1934, as amended, and "forward-looking information" within the meaning of applicable Canadian securities legislation, collectively "forward-looking statements." 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 timing and outcomes of such exploration activities;
- planned production of technical reports, economic assessments, and feasibility studies on our properties;
- plans and anticipated timing for obtaining permits and licenses for our properties;
- expected future financing, strategic and other transactions and the anticipated outcomes;
- plans and anticipated timing regarding production dates;
- anticipated gold and silver prices;
- 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 and environmental regulations;
- 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 for exploration or to develop our reserves, if any;
- risks related to land reclamation requirements and costs;
- risks related to mineral exploration and development activities being inherently hazardous;
- 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 skilled personnel, equipment, & supplies adversely affecting our ability to operate;
- risks related to mineral resource and economic 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 our common stock trading on the Over-the-Counter markets
- risks related to joint ventures and partnerships;
- risks related to potential conflicts of interest with our management;
- risks related to our dependence on key management;
- risks related to our Lookout Mountain, Windfall, Seven Troughs, and other acquired growth projects;
- risks related to our business model;
- 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 or other securities.

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, 2017, filed with the Securities and Exchange Commission (the “SEC”) on December 20, 2017. 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 Overview

Our business is mineral exploration, with a focus on district-scale gold projects such as our Eureka project in Nevada.

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 August 2014, we acquired Wolfpack Gold (Nevada) Corp. (“Wolfpack”), a U.S. company 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 cash and several projects at various stages of exploration in the gold trends of Nevada.

In March 2015, we acquired an option from Gunpoint Exploration Ltd. (“Gunpoint”) to purchase a 100% interest in Gunpoint’s Talapoosa exploration project in western Nevada. The option agreement, as amended (the “Amended Agreement”), granted us the right to exercise the purchase option at any time through March 31, 2019, subject to certain interim payments and cumulative project expenditures. We did not make the required payment of \$2 million nor issue the one million common shares of the Company by March 31, 2018 as required by the Amended Agreement, and, therefore, the Amended Agreement was terminated per its terms at 11:59 p.m. on March 31, 2018.

Recent Events

In December 2017, we closed a private placement offering of 2,880,867 Units of the Company at a price of \$0.30 per Unit for gross proceeds of \$864,260 (the “Offering”). Each Unit in the Offering consisted of one share of common stock of the Company and one common share purchase warrant.

On September 12, 2017, we entered into an agreement (the “Payment Agreement”) with a creditor (the “Creditor”) to pay by way of a payment plan an existing obligation of \$250,000 (the “Debt”) related to a potential corporate transaction in 2015 that was not completed. Pursuant to the Payment Agreement, we agreed to pay the Debt to the Creditor, including interest, on or before September 12, 2020. Interest accrues on the unpaid principal amount of the Debt at the prime rate, as such rate may change from time to time, plus 3% per annum. We agreed to pay the Creditor 5% of the gross proceeds of any funds raised, whether through equity sales, debt, or sales of assets. If the gross proceeds of any equity financing are

at least \$1 million, then we agreed to also commence monthly installment payments of \$10,000 until the Debt is paid.

During the three months and six months ended March 31, 2018, we paid \$8,850 and \$43,213, respectively, to the Creditor, which represented 5% of the gross proceeds of two tranches of a private placement completed in December 2017. During the three months and six months ended March 31, 2018, \$7,684 and \$37,727, respectively, was applied to principal of the Debt and \$1,166 and \$5,486, respectively, was applied to interest. The payment made during the three months ended March 31, 2018 was paid in early January 2018 even though the final private placement proceeds were received in late December 2017. The obligation to commence monthly installment payments of \$10,000 until the Debt is paid has not yet been triggered because we have not completed a financing with gross proceeds of at least \$1 million.

Mineral Exploration

Talapoosa, Nevada

In March 2015, we acquired an option from Gunpoint Exploration Ltd. (“Gunpoint”) to purchase a 100% interest in Gunpoint’s Talapoosa exploration project in western Nevada. Talapoosa is a 14,870-acre district-scale property comprising U.S. Bureau of Land Management (“BLM”) claims, fee lands, and water rights. The option agreement, as amended (the “Amended Agreement”), granted us the right to exercise the purchase option at any time through March 31, 2019, subject to certain interim payments and cumulative project expenditures. We did not make the required payment of \$2 million nor issue the one million common shares of the Company by March 31, 2018, as required by the Amended Agreement, and, therefore, the Amended Agreement was terminated per its terms on March 31, 2018. We have no future plans or obligations related to the Talapoosa project.

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 describes gold mineralization which was modeled and estimated by MDA. MDA statistically evaluated available drill data 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. The cross sections were rectified with mineral-domain interpretations on level plans spaced at 10-foot intervals. The modeled mineralization was analyzed 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. Conceptual designs for 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. 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 stratigraphic traps associated spatially with 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 (24.9 m @ 3.04 g/t) which included a subsection of 20 feet @ 0.26 opt of gold (6.1 m @ 8.79 g/t). The data for Windfall will support potential development of an estimate of the gold mineralization at the project.

Subject to available capital, we plan to resume work at Eureka with a focus on the Windfall Project where we anticipate completion of geologic modelling and engagement of an independent qualified expert to complete a resource calculation of gold ounces and grade. We also plan to initiate exploration on a new target area called Oswego where we have identified geologic indicators of a potential gold mineralized location.

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

Summary

We believe the global economic environment and monetary climate continue to favor a relatively steady gold price for the foreseeable future with potential for long-term price improvements. While volatility is to be expected, our expectation is that we can identify and pursue opportunities to advance our projects, despite the current gold price and market volatility.

As a company, we are considering financing and strategic corporate opportunities with our focus on providing for the advancement of projects comprising our Eureka property and other property interests we may acquire. While our focus has previously been on Talapoosa, with the relinquishment of the Talapoosa option, we plan to advance multiple project areas and targets on our Eureka property.

We believe that with appropriate funding, the Windfall project at our Eureka property can advance with determination of an initial gold mineralization estimate and follow-up drilling targeted to expand the mineralization. Further potential will be developed with the advancement of new targets at Oswego and the potential acquisition of other prospective property interests in Nevada. We believe that our management and our board of directors have the knowledge and experience to evaluate financing and strategic opportunities and to provide for the advancement of multiple projects.

Results of Operations for the three months ended March 31, 2018 and 2017

Consolidated Results

(US\$)	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
Exploration expenses:				
Eureka	\$ 9,494	\$ 4,138	\$ 21,846	\$ 19,979
Talapoosa	11,532	31,969	25,354	58,105
Other exploration properties	68	285	68	4,036
Total exploration expenditures	21,094	36,392	47,268	82,120
Non-cash expenses:				
Stock option expenses	192,000	15,000	207,000	15,000
Abandonment of mineral rights	3,231,700	-	3,231,700	-
Income tax provision	-	11,632	-	32,632
Gain on disposal of equipment	-	(2,500)	-	(2,500)
Gain on sale of available-for-sale securities	-	(23,826)	-	(23,826)
Depreciation, amortization and accretion	1,935	1,843	3,778	3,598
Total non-cash expenses	3,425,635	2,149	3,442,478	24,904
Professional fees expenses	28,025	46,425	100,571	138,240
Insurance expenses	24,057	23,517	47,236	43,643
Salaries and benefits expenses	111,266	109,400	194,520	185,934
Interest and other (income) expense	4,065	(125)	(4,430)	793
Other general and administrative expenses	81,653	313,689	197,314	382,520
Net loss	\$ (3,695,795)	\$ (531,447)	\$ (4,024,957)	\$ (858,154)

Our consolidated net loss for the three months ended March 31, 2018 was \$3,695,795, including a charge of \$3,231,700 related to the relinquishment of the Talapoosa option. Excluding the abandonment of mineral rights expense, the net loss for the three months ended March 31, 2018 was \$464,095 compared to a consolidated net loss of \$531,447 for the three months ended March 31, 2017. The year-over-year difference is primarily related to greater other general and administrative expenses in 2017, partially offset by increased non-cash stock option expense due to options granted in 2018. Other general and administrative expenditures were higher in 2017 primarily related to marketing and consulting costs aimed at increasing our market exposure and supporting our marketing efforts during the quarter ended March 31, 2017. We anticipate that the net loss, excluding abandonment of mineral rights expenses, will increase as our exploration activity increases, subject to changes in non-cash option expenses and general and administrative expenditures which vary according to transaction activity. Exploration expenditures during the three months ended March 31, 2018 decreased compared to the same period in 2017 due to reduced exploration activity at Talapoosa. We anticipate that exploration expenditures will increase year-over-year in the next quarter, subject to available capital, as we seek to advance projects on our Eureka property.

Our consolidated net loss for the six months ended March 31, 2018 was \$4,024,957, including a charge of \$3,231,700 related to the relinquishment of the Talapoosa option. Excluding the abandonment of mineral rights expense, the net loss for the three months ended March 31, 2018 was \$793,257 compared to a consolidated net loss of \$858,154 for the six months ended March 31, 2017. The year-over-year difference is primarily related to greater professional fees, other general and administrative expenses, and expenses related to exploration at Talapoosa in 2017, partially offset by increased non-cash stock option expense due to options granted in 2018. Other general and administrative expenditures were higher in 2017 primarily related to marketing and consulting costs aimed at increasing our market exposure and supporting our marketing efforts during the six months ended March 31, 2017. We anticipate that the net loss, excluding abandonment of mineral rights expenses, will remain relatively flat, subject to changes in non-cash option expenses and general and administrative expenditures which are subject to transaction activity. Exploration expenditures during the six

months ended March 31, 2018 decreased compared to the same period in 2017 due to reduced exploration activity at Talapoosa. We anticipate that exploration expenditures will increase in future periods, subject to available capital, as we seek to advance projects on our Eureka property.

Subject to adequate funding in 2018, we expect to continue to incur exploration expenses for advancing exploration initiatives at the Lookout Mountain and Windfall projects on our Eureka property.

Financial Condition and Liquidity

At March 31, 2018, we had assets of \$14,462,303, consisting of cash in the amount of \$15,318; property, mineral rights and equipment, net of depreciation of \$13,947,319, restricted cash held for exploration bonds of \$285,128, and other assets in the amount of \$214,538.

During the six months ended March 31, 2018, we closed the sale of two tranches of an equity financing. In the aggregate, we sold a total of 2,880,867 Units at a price of \$0.30 per unit for gross proceeds of \$864,260 and net proceeds after the costs of the financing of \$821,767.

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. In recent years, commodity prices and mining equities have seen significant volatility which increases the risk to precious metal investors. Commodity price expectations, global economic uncertainties, and market factors, 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, return of excess restricted cash held for exploration bonds, asset sales, credit facilities or debenture issuances in order to continue as a going concern.

At March 31, 2018, we had a working capital deficit of \$179,042. As of the date of this report, we have approximately \$325,000 outstanding in current liabilities and a cash balance of approximately \$550,000. 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, meet our property expenditure obligations and execute our business plan for the next 12 months without receiving significant additional capital. We estimate that in order to meet our minimum obligations and continue as a going concern for the next twelve months, we need to raise at least \$1 million during the next year, and to conduct our anticipated exploration program at Eureka for the next twelve months would require an estimated additional \$1 million. Therefore, we expect to engage in financial transactions to increase our cash balance and/or decrease our cash obligations in the near term, which may include equity financings, joint venture agreements, sales of non-core assets, credit facilities, debenture issuances, or other strategic transactions.

We are working to increase and maintain sufficient working capital by prioritizing our expenditures toward added-value activities and advancing transactions aimed at improving our cash position. We have also implemented significant cost-cutting measures, reduced staff, and curtailed discretionary exploration expenditures to preserve cash. We are also working to increase our working capital by exploring multiple financing alternatives to fund the execution of our business plan.

We recognize that we will not be able to execute our operating plans with our current cash balances. However, with our current cash balance, proceeds from sales of non-core assets, 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 equity investments, asset sales, joint ventures, debt facilities, or other types of strategic arrangements.

We plan, as funding allows, to execute exploration programs at Eureka to follow-up on previous drill results and historical data, which are expected to include drilling, surface mapping and sampling, metallurgical tests, and initiating and upgrading gold resource estimates at Eureka. Based upon identified potential funding opportunities, we are revising our corporate and exploration budgets, with a focus on the advancement the Eureka and Windfall projects at our Eureka property. We recognize that we will require additional funding in order to execute our operating plans and advance toward development of our properties.

Given current market conditions, we cannot provide assurance that necessary financing will be available to us on acceptable terms or at all. Over the past two years, we have significantly curtailed our corporate, exploration and other expenditures, however, we recognize that we will still require additional funding to provide sufficient capital to meet our property obligations, fund our planned, non-discretionary expenditures for the next 12 months, and maintain our primary mineral properties. 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

On December 21, 2017, we closed a private placement offering of 2,880,867 Units of the Company at a price of \$0.30 per Unit for gross proceeds of \$864,260 (the "Offering"). Each Unit in the Offering consisted of one share of common stock of the Company and one common share purchase warrant (each a "Warrant"), with each Warrant exercisable to acquire an additional share of common stock of the Company at a price of \$0.45 per share until the warrant expiration date of October 31, 2022. The private placement offering was completed under Rule 506(b) of Regulation D promulgated by the SEC under the Securities Act of 1933, as amended, solely to persons who qualified as accredited investors. Subscribers who were resident in Canada were required to qualify as accredited investors under Canadian National Instrument 45-106 *Prospectus Exemptions*.

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 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 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 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, our 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, our disclosure controls and procedures were not 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.

Management determined that the Company’s disclosure controls and procedures were not effective because of a material weakness in our internal control over financial reporting due primarily to minimal staffing at the Company and the resulting weakness related to appropriate segregation of duties. While the Company does adhere to a system of internal controls and processes that were designed and implemented by a respected, national accounting firm, it is difficult with a very limited staff to maintain appropriate segregation of duties in the initiating and recording of transactions, thereby creating a segregation of duties weakness. Subject to available capital, we anticipate improving the effectiveness of our disclosure controls and procedures on a long-term basis by increasing staffing levels and segregating certain duties.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not aware of any material pending 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, 2017, which was filed with the SEC on December 20, 2017.

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 quarter ended March 31, 2018, 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 for May and June 2016 Offering 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 10-Q filed with the Securities and Exchange Commission on May 15, 2017
- 4.4 Form of Warrant Agreement for November and December 2017 Offering, incorporated by reference to the Company’s 10-Q filed with the Securities and Exchange Commission on January 26, 2018
- 10.1*# Randal Hardy Employment Agreement dated March 14, 2018, with an effective date of December 16, 2016
- 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

- Denotes management contract or compensatory plan

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)

Date: May 10, 2018

By: /s/ Randal L. Hardy

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

Date: May 10, 2018

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement"), is made and entered into effective as of the Effective Date of December 16, 2016, by and between Timberline Resources, Corp., a Delaware corporation with a principal business address of 101 E. Lakeside Avenue, Coeur d'Alene, Idaho 83814 (the "Company") and Randal L. Hardy (the "Executive" or "Employee").

PRELIMINARY STATEMENT. The Company desires to employ the Executive as Chief Financial Officer and Corporate Secretary of the Company.

NOW THEREFORE, in consideration of the premises and of the respective covenants and agreements of the parties herein contained, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending legally to be bound, hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used in this Agreement shall have the following meanings:

1.1 "Board" means the Board of Directors of the Company.

1.2 "Cause" means any or all of the following:

- a) any material breach by the Executive of his obligations under this Agreement, if the Company provided the Executive with written notice of such Cause and the Executive failed to remedy the situation to the reasonable satisfaction of the Company within thirty (30) days of the date of such notice;
- b) Executive's conviction of, or plea of guilty to, any felony charge, or of any crime involving moral turpitude, fraud or misrepresentation;
- c) intentional fraud, misrepresentation, or embezzlement by the Executive in the course of his employment; and/or
- d) any material neglect, inability, refusal or failure of the Executive to perform his duties as an employee of the Company, if the Company provided the Executive with written notice of such Cause and the Executive failed to remedy the situation to the reasonable satisfaction of the Company within thirty (30) days of the date of such notice

1.3 "Change in Control" shall mean the occurrence after the Effective Date hereof of any of:

- a) an acquisition after the Effective Date hereof by an individual or legal entity or "group" (as described in Rule 13d-5(b) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Company, by contract or otherwise) in excess of 40% of the voting securities of the Company;

- b) the Company merges into or consolidates with any other legal entity or Person, or any legal entity or Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than 50% of the aggregate voting power of the Company or the successor entity of such transaction;
- c) the Company sells or transfers all or substantially all of its assets to another legal entity or Person and the stockholders of the Company immediately prior to such transaction own less than 50% of the aggregate voting power of the acquiring entity immediately after the transaction;
- d) In any 12-month period, the individuals who, as of the beginning of the 12-month period, constitute the Board cease for any reason to constitute at least a majority of the Board; or
- e) the execution by the Company of an agreement to which the Company is a party or by which it is bound, providing for any of the events set forth in clauses (a) through (d) above.

1.4 “Good Reason” means any or all of the following:

- a) the assignment to the Executive of any duties inconsistent in any material respect with Executive’s position (including status, offices, titles and reporting requirements, authority, duties or responsibilities), or any other action that results in a material diminution in such position, authority, duties, or responsibilities, excluding for this purpose an isolated or inadvertent action not taken in bad faith;
- b) a reduction of greater than 50%, without the Executive’s written consent, by the Company in the Executive’s base salary as increased from time to time after the Effective Date hereof. The Executive’s employment may be reduced by the Company up to 50% of the full-time annual basis, along with a pro-rata reduction in annual salary without evoking Termination of Employment (per Section 7.1);
- c) a requirement, without the Executive’s written consent, that the Executive be based at any office or location more than 50 miles from the Executive’s principal office as of the Effective Date;
- d) any failure by the Company to obtain the assumption of the obligations contained in this Agreement by any successor as contemplated in Section 20 of this Agreement;
- e) a material breach by the Company of its obligations under this Agreement, if the Executive provided the Company with written notice of such Good Reason and the Company failed to remedy the situation within thirty (30) days of the date of such notice; and/or

- f) It is the intent of the Company that a termination of employment for Good Reason will meet the definition of “involuntary separation” set forth in Treasury Regulation Section 1.409A-1(n), and this Agreement will be interpreted accordingly.

1.5 “Permanent Disability” means, with respect to the Executive, that the Executive has become physically or mentally incapacitated or disabled so that, in the reasonable judgment of the Board, he is unable to perform the essential functions of his position under this Agreement, with or without reasonable accommodation, and such condition has continued for at least six consecutive calendar months or for 180 working days in any 12 month period.

1.6 “Change of Control Multiplier” means a number that is equal to one (1) plus one twelfth (1/12) of the number of full years (up to a maximum of twelve (12) years) of continuous service to the Company as a full-time employee or full-time contractor since September 2, 2015, the date of termination of the Executive’s initial Executive Employment Agreement.

2. Employment of Executive. Effective as of the Effective Date, the Company hereby engages the Executive as a full-time executive employee for the period specified in **Section 3** hereof, and the Executive accepts such employment, on the terms and subject to the conditions set forth in this Agreement. The Executive’s primary place of employment will be in Coeur d’Alene, Idaho (the “**Area**”). The Executive may be required to travel in the performance of his duties hereunder, but he shall not be required to relocate.

3. Term. Except as otherwise provided in **Section 7** hereof, the term of employment hereunder shall be for an indefinite period beginning on the Effective Date (the “**Employment Period**”). Specifically, if other than following a Change in Control of the Company, the Company terminates Executive’s employment without Cause, or the Executive terminates employment for Good Reason, the Executive will be entitled to severance in the amount of the total of one (1) years’ salary based upon Executive’s base annual salary immediately preceding his termination, the Executive’s previous year’s non-equity performance bonus, plus fringe benefits as defined in Section 6.2 for termination for reasons other than Cause, as defined in this Agreement.

4. Duties of Executive. The Executive’s principal duties on behalf of the Company are and shall be to fulfill the obligations and duties of Chief Financial Officer and Corporate Secretary, which are all of the duties customarily involved in such positions. The Executive shall be responsible for reporting to the President and Chief Executive Officer.

5. Extent of Services. The Executive acknowledges that he is serving as an executive officer of the Company, and as such covenants and agrees that his principal employment during the Employment Period shall be with the Company, and that he will not engage in any other business activity, for his own account or for or on behalf of any other person, firm or corporation, which would hinder his ability to perform his obligations as Chief Financial Officer and Corporate Secretary of the Company.

6. Compensation and General Benefits. The Executive shall be compensated for his services under this Agreement as follows:

6.1 Salary. During the Employment Period, the Company shall pay the Executive a salary of not less than \$150,000 annually, excepting the condition of Section 1.4 b)., less required and authorized deductions and withholdings. Such salary shall be

paid in equal semi-monthly payments in the same manner and on the same schedule as other Company employees.

6.2 Fringe Benefits. During the Employment Period, the Company shall pay for (or reimburse Employee for the cost of) health, dental, and vision insurance for Employee and Employee's eligible family members (the "**Fringe Benefits**"). In addition, the Company shall pay for health, dental, and vision insurance for Employee and Employee's eligible family members following the termination of Employee's employment by the Company (irrespective of whether Employee is then living), unless such termination is for Cause, as defined in this Agreement, subject, however, to the following limitations and conditions: (a) the Company shall not be obligated to pay more than \$20,000 per year for such insurance; and (b) the Company's obligation to pay for such insurance shall commence as of the expiration of Employee's employment and shall continue for a period of time equal to one (1) year plus one (1) additional month for each full year that Employee was employed by the Company, up to a maximum of twelve (12) additional months, or until such time as insurance benefits are provided to the Executive by another employer.

6.3 Employee Compensation Plans. The Executive will be eligible for participation in such profit-sharing, bonus, stock purchase, incentive and performance award programs which are available to other employees of the Company with comparable authority or duties.

6.4 Performance Bonuses and Incentive Compensation. Employee may receive performance bonuses and other incentive compensation based upon the recommendations and approval, and subject to the sole discretion, of the Board.

6.5 Business Expenses. During the Employment Period, the Company shall pay or reimburse the Executive for all reasonable business expenses, including but not limited to travel and entertainment expenses, in accordance with the policies of the Company applicable to executive officers. The Executive shall maintain and provide the Company with records of such expenses in accordance with the rules and regulations promulgated by the Company. Upon termination, amounts owing to Executive for expense reimbursement will be paid immediately by Company in accordance with the severance provisions in Section 10.

6.6 Vacation. During each twelve (12) month period during which the Executive is employed by the Company, the Executive shall be entitled to six (6) weeks of paid vacation. Should Employee have any earned but unused vacation time at the expiration of such twelve (12) month period in which it was earned, he shall be entitled to carry a maximum of six (6) weeks (or such lesser amount as was earned and is unused) into the next calendar year. Upon termination, the value of earned but unused vacation will be paid immediately by Company in accordance with the severance provisions in Section 10.

6.7 Taxes. The Company may reduce any payment made to the Executive under this Agreement by any required federal, state or local government withholdings, deductions for taxes or similar charges with respect to any actual or constructive payment or compensation to the Executive under this Agreement.

6.9 No Other Payments. The compensation payable to the Executive pursuant to this Agreement will be in consideration for all services rendered by the Executive

under this Agreement, and the Executive will receive no other compensation for any service provided to the Company, unless the Company in its sole discretion otherwise determines.

7. Termination of Employment. The employment of the Executive under this Agreement will terminate on the earliest of:

7.1 Termination by the Company Without Cause. The 90th calendar day after the Company gives the Executive written notice of termination without Cause.

7.2 Termination by the Company With Cause. If an event or circumstance within the definition of Cause occurs, immediately after the Company gives the Executive written notice of termination for Cause.

7.3 Termination by the Executive For Good Reason. If an event or circumstance within the definition of Good Reason occurs, immediately after the Executive gives the Company written notice of termination for Good Reason.

7.4 Termination by the Executive Without Good Reason. The 30th calendar day after the Executive gives the Company written notice of termination of his employment without Good Reason.

7.5 Retirement. Executive may retire at any time by giving the Company not less than sixty days written notice of his intent to retire, specifying the date of retirement. The Company shall not be obligated to pay Executive a monthly retirement benefit following his retirement, but shall endeavor in good faith from and after the Effective Date of this Employment Agreement to devise and implement a retirement plan for Employee and other employees of the Company. Executive acknowledges and understands that the Company is under no obligation to devise or implement such a plan. Executive further acknowledges and understands that, if the Company does devise and implement a retirement plan, it may make only partial contributions to the plan and may condition such contributions on the Company's earnings or other benchmarks of financial performance.

7.6 Permanent Disability. The Permanent Disability of the Executive.

7.7 Death. The death of the Executive.

8. Notice of Termination. Any notice of termination of the Executive's employment under this Agreement shall be communicated in writing and delivered to the other party as provided in **Section 13** and shall specify the termination provision relied upon by the party giving such notice. The Executive shall have a reasonable opportunity to be heard by the Board prior to any termination for a "Cause" described in (a), (c) or (d) of the definition of "Cause".

9. Termination of Corporate Office. In the event that the employment of Executive is terminated for any reason and Executive, at the time of such termination, holds office as an officer of the Company, such office shall terminate and Executive shall be deemed to have resigned the same automatically and without notice as of the effective date of the termination of employment.

10. Severance Conditions Upon Termination of Employment Relationship. The employment shall be subject to the following conditions:

10.1 Termination by the Company Without Cause or by the Executive for Good Reason following a Change in Control of the Company. If following a Change in Control of the Company, the Company terminates Executive's employment without Cause, or the Executive terminates employment for Good Reason, the company shall: (a) pay Executive (or Executive's spouse or estate, should Executive die), a severance benefit equal to the product of Executive's full-time (100%) base annual salary immediately preceding his termination, inclusive of any non-equity performance bonus earned in the twelve (12) months preceding his termination, multiplied by the Change of Control Multiplier; (b) pay for (or reimburse Executive for the cost of) such Fringe Benefits as the Company is then obligated to pay Executive pursuant to Section 6.2 of this Agreement; and (c) pay Executive the value of Executive's earned but unused vacation days, and unreimbursed business expenses up to the date of termination of employment.

10.2 Termination by the Company Without Cause or by the Executive for Good Reason not following a Change in Control of the Company. If other than following a Change in Control of the Company (which is covered by Section 10.1 above), the Company terminates Executive's employment without Cause, or the Executive terminates employment for Good Reason, the company shall: (a) pay Executive (or Executive's spouse or estate, should Executive die), a severance benefit equal to one (1) years' salary, based upon Executive's base annual salary immediately preceding his termination, plus any non-equity performance bonus earned in the twelve (12) months preceding his termination; (b) pay for (or reimburse Executive for the cost of) such Fringe Benefits as the Company is then obligated to pay Executive pursuant to Section 6.2 of this Agreement; and (c) pay Executive the value of Executive's earned but unused vacation days, and unreimbursed business expenses up to the date of termination of employment.

10.3 Termination by the Company With Cause or by the Executive Without Good Reason. If the Company terminates the Executive's employment for Cause or the Executive terminates his employment without Good Reason, then (a) the Company shall pay to the Executive, on the date of termination of employment, the Executive's salary and earned bonus or other compensation, the value of the Executive's earned but unused vacation days, and unreimbursed business expenses up to the date of termination of employment, and (b) the Executive shall not receive any severance pay.

10.4 Termination for Permanent Disability or Death. If the Executive's employment is terminated due to his Death or Permanent Disability, the Company shall pay the Executive, or the Executive's estate, as the case may be, benefits equal to all of the benefits that are provided in Section 10.1 of this Agreement.

11. Conditions to Receipt of Severance.

11.1 Separation Agreement and Release of Claims. The receipt of any severance pursuant to Section 10 will be subject to Executive signing, not revoking and complying with a separation agreement and release of claims in a form reasonably satisfactory to the Executive and the Company. No severance pursuant to such section will be paid or provided until the separation agreement and release agreement becomes effective.

11.2 Section 409A. If the Company reasonably determines that the imposition of additional tax under Section 409A of the Internal Revenue Code of 1986, as amended, will apply to the payment of any cash severance payments otherwise due to Executive

pursuant to Section 6, then notwithstanding anything to the contrary in this Agreement, any cash severance payments otherwise due to Executive pursuant to Section 6 or otherwise on or within the six-month period following Executive's termination will accrue during such six-month period and will become payable in a lump sum payment on the date six (6) months and one (1) day following the date of Executive's termination. In addition, this Agreement will be deemed amended to the extent necessary to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Code Section 409A and any temporary, proposed or final Treasury Regulations and guidance promulgated thereunder and the parties agree to cooperate with each other and to take reasonably necessary steps in this regard.

12. Confidentiality and Non-Competition Provisions.

12.1 Confidentiality. The Executive acknowledges that he will be making use of, acquiring, and/or adding to Confidential Information of the Company of a special and unique nature and value. The Executive covenants and agrees that he shall keep and maintain such Confidential Information strictly confidential and shall not, anywhere in the world, at any time, directly or indirectly, for himself, or on behalf of any person, firm, partnership or corporation, or otherwise, except as otherwise directed by the Company, or necessary to perform his obligations under this Agreement, divulge or disclose for any purpose whatsoever, any Confidential Information that has been obtained by, or disclosed to, him as a result of his relationship with the Company. This Agreement specifically prohibits the Executive from disclosing to any person, firm, partnership or corporation or otherwise, trade secrets or other Confidential Information relating to the business of the Company. "**Confidential Information**" as used herein shall mean any and all information regarding or relating to the business affairs of the Company, including without limitation any and all financial, technical, trade secret, and any other proprietary or confidential information (written or oral); provided however, "Confidential Information" shall not include information which (i) was or becomes generally available to the public other than as a result of a disclosure by the Executive in violation of this Agreement; (ii) was or is developed by the Executive independently of and without reference to any Confidential Information; or (iii) was, is or becomes available to the Executive on a non-confidential basis from a third party who is not prohibited from transmitting such information by a contractual, legal or fiduciary duty.

12.2 Disclosure of Confidential Information. In the event that the Executive is requested or becomes legally compelled (by oral questions, interrogatories, requests for information or documents, subpoenas, civil investigative demand or similar process) to make any disclosure which is prohibited or otherwise constrained by **Section 12**, the Executive agrees that he will provide the Company with prompt notice of such request so that the Company may seek an appropriate protective order or other appropriate remedy and/or waive the Executive's compliance with the provisions of **Section 12**. In the event that such protective order or other remedy is not obtained, or the Company grants a waiver hereunder, the Executive may furnish that portion (and only that portion) of the information which the Executive is legally compelled to disclose or else stand liable for contempt or suffer other censure or penalty; provided, however, that the Executive shall use his reasonable efforts to obtain reliable assurance that confidential treatment will be accorded any information so disclosed. The Company may obtain temporary, preliminary or permanent restraining orders, decrees or injunctions as may be necessary to protect the Company against, or on account of, any actual or threatened violation of this **Section 12**.

12.3 Solicitation of Employees. As a material inducement to the Company to enter into this Agreement, the Executive agrees that for a period of one year beyond the date of Executive's termination from employment for whatever reason, the Executive shall not, directly or indirectly, for himself or on behalf of any person, firm, partnership or corporation, or otherwise, solicit for employment or as a consultant or independent contractor, enter into an independent contract or relationship, or employ any person employed by the Company at any time during the term of such restriction, or otherwise interfere with the employment relationship between the Company and any such employee

12.4 Interference With Business. As a material inducement to the Company to enter into this Agreement, the Executive agrees that for a period of one year beyond the date of Executive's termination from employment for whatever reason, the Executive shall not, directly or indirectly, for himself or on behalf of any person, firm, partnership or corporation, or otherwise, (a) induce or attempt to induce any customer, supplier, licensee or business relation to cease doing business with the Company, or in any way interfere with the relationship between any customer, supplier, licensee or business entity and the Company; or (b) disparage the Company.

12.5 Fair and Reasonable. The Executive has carefully read and considered the provisions of this **Section 12**, and having done so, agrees that the restrictions set forth in this **Section 12** are fair and reasonable and are reasonably required for the protection of the interests of the Company.

12.6 Remedies. The Executive agrees that his violation of any term, provision, covenant or condition of this **Section 12** may result in irreparable injury and damage to the Company which will not be adequately compensable in money damages, and that the Company will have no adequate remedy at law therefor. In addition to any other rights or remedies that the Company may have at law or in equity, under this Agreement, or otherwise, the Executive agrees that the Company may obtain temporary, preliminary or permanent restraining orders, decrees or injunctions as may be necessary to protect the Company against, or on account of, such violation, without the necessity that the Company post a bond for such relief. Nothing in this Section shall be construed to limit the Company's rights or remedies for or defenses to any action, suit or controversy arising out of this Agreement.

13. Severability. If any part of this Agreement is held by a court of competent jurisdiction to be invalid, unenforceable or in whole or in part, by reason of any rule of law or public policy, such part shall be deemed to be severed from the remainder of this Agreement for the purpose only of the particular legal proceedings in question and all other covenants and provisions of this Agreement shall in every other respect continue in full force and effect.

14. Warranty. The Executive represents and warrants that he is not subject to any agreement, instrument, order, judgment or decree of any kind, or any other restrictive agreement of any character, which would prevent him from legally entering into this Agreement, or which would be breached by the Executive upon execution of this Agreement.

15. Notices. All notices hereunder shall be in writing and shall be deemed given if hand-delivered or deposited with a nationally recognized overnight delivery service such as FedEx for next Business Day delivery, or in the mail, postage prepaid, registered or certified with a return receipt requested, and addressed as follows:

If to Executive: Randal L. Hardy
9915 N. Strahorn Road
Hayden Lake, ID 83835

If to Company: Timberline Resources
101 E. Lakeside Avenue
Coeur d'Alene, ID 83814

or to such other addresses as the parties hereto may designate by written notice pursuant to this paragraph.

16. Effective Waiver. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate as or be construed as a waiver of any subsequent breach thereof.

17. Amendment. This Agreement may be amended or modified only by an agreement in writing signed by the Company and the Executive.

18. Entire Agreement. This Agreement is complete, and all promises, representations, understandings, warranties, and agreements with reference to the subject matter herein have been fully and finally expressed herein; and this Agreement supersedes any and all prior agreements with respect to the subject matter hereof.

19. Captions. The titles to the paragraphs herein are not considered part of this Agreement.

20. Successors and Assigns. Any successor of the Company or of its assets, business and goodwill, by purchase, merger or reorganization, shall succeed to all of the rights and be responsible for the performance of all the obligations of the Company under the terms of this Agreement, in the same manner and to the same extent as though such successor were the Company. The rights and responsibilities of the Executive hereunder are personal and shall not be transferable by assignment or otherwise.

21. Attorneys' Fees And Costs. In the event that it shall become necessary for either of the parties to obtain the services of an attorney in order to enforce the provisions hereof, then, in that event, the defaulting party shall pay the prevailing party all reasonable attorneys' fees and all costs incurred in connection therewith, including the costs of any appeal.

22. Governing Law. This Agreement shall be construed according to and governed by the laws of the State of Idaho.


23. Consent To Jurisdiction, Service of Process, And Venue. Executive agrees that any dispute or claim between Executive and the Company shall be adjudicated exclusively in the in a court in Kootenai County, Idaho, and agrees not to commence or pursue an action in any other state or federal court. Employee also expressly consents to the exclusive jurisdiction of such court and to service of process in any manner provided under Idaho law with respect to any such legal action or proceeding involving Executive and the Company. Claims or disputes covered by this agreement include, without limitation, any relating to, arising out of, or resulting from Executive's relationship with the Company, the termination of that relationship with the Company, and specifically includes any claim under any statute (including, without limitation, any claim arising under or based upon the Age Discrimination Employment Act, Title VII of the Civil Rights Act, the Americans With Disabilities Act, the Rehabilitation Act of 1973, or any other federal or state anti-discrimination law, the Fair Labor Standards Act or any other federal

or state wage law, the Equal Pay Act, the Employee Retirement Income Security Act, *et cetera*) and any claim under contract, quasi-contract, estoppel, or tort.

24. Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed to constitute an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto or their duly authorized representatives have caused this Agreement to be executed as of the date first above written.

Timberline Resources Corporation (Company)

By:  _____

Name: Leigh Freeman

Title: Director

Randal L. Hardy (Executive)

 _____

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

Date: May 10, 2018

By: /s/ Steven A. Osterberg

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

CERTIFICATION

I, Randal Hardy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Timberline Resources Corporation,
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
Principal Financial Officer

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

In connection with the Quarterly Report of Timberline Resources Corporation (the “Company”) on Form 10-Q for the quarter ended March 31, 2018, 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: May 10, 2018

By: /s/ Steven A. Osterberg

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

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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

In connection with the Quarterly Report of Timberline Resources Corporation (the "Company") on Form 10-Q for the quarter ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Randal Hardy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 10, 2018

By: /s/ Randal Hardy

Randal Hardy
Chief Financial Officer
Principal Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.